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November 25, 1991

Pensions & Investments

The Newspaper of Corporate and Institutional Investing

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AT DEADLINE

Support of EFT charge cools

A proposal imposing billions of dollars in fees on large users of electronic fund transfers apparently is dead.

Staffers for Sen. John Kerry and Rep. Joseph Kennedy, both Massachusetts Democrats, said the two won't propose amendments to banking-related legislation to impose a fee on fund transfers. A coalition of institutional investors, financial firms, unions and municipalities had opposed the measure, which was designed to refinance the savings and loan and bank insurance funds and the Resolution Trust Corp.

Bill outlines PBGC status

The Bush administration last week unveiled comprehensive legislation to clarify and improve the creditor status of the PBGC for unpaid pension obligations for employers in Chapter 11 bankruptcy. The legislation was introduced by Rep. Rod Chandler, R-Wash., and Sen. Charles E. Grassley, R-Iowa.

Russell sets midcap index

Frank Russell Co. launched a medium-capitalization equity index composed of 800 stocks with market capitalizations between $350 million and $3.25 billion. The index, taken from the bottom of its Russell 1000, falls between the Russell 2000 and the Standard & Poor's 500 in market capitalization.

Managers, custodian hired

The $140 million **Warren**

Continued on page 42

INSIDE

SCRIPPS WORLD PHOTOS

Stocks reflect Magic

Earvin "Magic" Johnson's announcement that he is infected with HIV has been reflected in drug stock prices, and ar ılysts don't expect his stateme.it to prolong the rally in that segment of the market. Page 6.

Managers unswayed by market drop

Bears, bulls stick to their strategies

By Joel Chernoff and Terry Williams

Money managers are sticking to their guns following the recent market turmoil.

Managers who had built up defensive positions prior to the 120-point drop Nov. 15 are strengthened in their convictions, while more bullish managers are using the market's condition as an added buying opportunity.

"We have been buying in as the market has been going down," said Ed Peters, senior manager of asset allocation with PanAgora Asset Management, Boston.

Conversely, James H. Ayres, chief investment officer of J.H. Ayres & Co. Inc., Colorado, Springs, Colo., another tactical asset allocator, is 100% in cash equivalents and will maintain his defensive position. "The odds are high that the trends are down, and we don't want to ride that roller coaster."

The key measure that is keeping Mr. Ayres in cash is banks' loan-to-investment ratio.

"For many months, the total loans have been declining at an annualized rate of 10%," said Mr. Ayres. "Their investments (in Treasuries) have been rising," while banks are not issuing new loans.

Until banks begin to lend again, there will be "no fuel to spur the economy," he said.

Consequently, the market has not reached equilibrium, and Mr. Ayres is defensive.

Similarly, Richard Fontaine, chief investment officer of Richard Fontaine Associates Inc., Baltimore, said: "We are in the early stages of a bear market."

Stock prices are overvalued on a historical basis, with the Standard & Poor's 400 Index at 290% of book value and yielding only 2.7%, Mr. Fontaine said. Price-to-earnings ratios are anywhere from 20 to 23, depending on how well corporate earnings fare this year, he said. Meanwhile, the economy still is weighed down by the enormous debt load that has been acquired during the past 20 years, meaning the correction could be a long one and the Dow Jones Industrial Average could drop to around 2,200, he said.

The weakened economy has led Mr. Fontaine to reduce stock accounts to only 40% invested, with the remainder in intermediate Treasuries. Mr. Fontaine has about 5% of his institutional portfolios in gold-related stocks, such as **Newmont Mining Corp.**, **Battle Mountain Gold** and **FMC Gold Co.** He also has about 10% to 11% invested in media stocks, including **The New York Times Co.**, **Tribune Co.** and **Times Mirror Co.**

Richard Howard, portfolio manager for T. Rowe Price's Capital Appreciation Fund, Baltimore, is invested only 50% in common stocks, with the balance in cash, preferred stocks and convertibles. Valuations for the S&P 400 and 500 "are right off the end of the scale," he said.

Despite record high valuations, most managers seemed to believe the market was in for a normal correction, from 10% to 15%, and

See **Market** *on page 40*

Most investors pass on Met Life transfer

By Hillary Durgin

NEW YORK — Costs and uncertainty prevented the majority of Mutual of New York's GIC clients from transferring their contracts to Metropolitan Life Insurance Co.

Only about one-third — $458 million — of MONY's $1.5 billion in guaranteed investment contracts was shifted to Met Life under the $666 million transaction between the mutual insurance companies.

"With interest rates doing what they're doing, I don't think I could get (MONY's rate) by doing anything other than leaving it where it is," said Barbara Curley, administrator for the $10 million Bookbinder Multiemployer Group/Graphic Communications International Union Local 2B Joint Pension Fund, Philadelphia.

The transfer caps a deal intended to calm investor fears over the security of their MONY investments, and prevent outright client flight by offering an option beyond staying with MONY or liquidating their accounts.

In addition to the contracts it will assume, Met Life will supply MONY with $300 million the insurer can use as contracts mature, benefit payments come due or premature withdrawal requests are made.

The $666 million figure includes a portion of the MONY contracts that will be invested in a Met Life separate account, a portion of the contracts Met Life will guarantee outright, and a $300 million re-insurance agreement, slightly offset by that guarantee.

The $458 million transfer figure was in line with what the insurers, investment managers and consultants had expected. Investors had to decide by Nov. 15 if they were going to accept the transfer option.

Expected reductions in GIC yields of up to one percentage point, as well as overall uncertainty on what the rates would be and when the principal on the contracts would be paid, were deterrents to accepting the deal.

The Bookbinder fund has two GIC contracts with MONY, valued at a total of about $1 million, as well as $4 million in six MONY separate accounts.

"We're not withdrawing any money — not on the separate account side or the GIC side," said Ms. Curley.

"We're leaving everything just the way it is."

The two GICs, which mature in early 1994, have interest rates of 8.85% and 9.11%.

Uncertain interest rates deterred Xerox Corp., Stamford Conn., from participating in the Met Life deal.

"We're staying with MONY," said Jerry Paolini, manager-trust investment strategy for the company, which has $4 billion in defined benefit and defined contribution assets.

Xerox has one $3 million MONY contract in its $940 million GIC portfolio that is earning 9.49% and matures in January.

"We looked at it, but unless they tell me what the interest rate is going to be, we have a reluctance going into it," Mr. Paolini said. "It could change significantly."

Pension fund executives had three options in the MONY-Met Life deal: jump to Met Life; liqui-

See **MONY** *on page 43*

The University of Illinois intends to place 75% of its short-term cash portfolio with external managers to boost returns.

Companies reach out

Short-term managers sought as rates fall

By Fred Williams

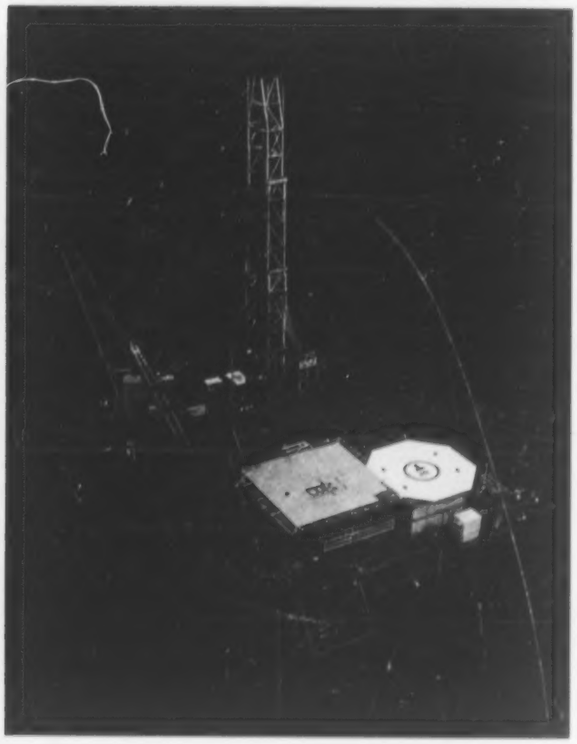
Sagging short-term interest rates and recession-produced belt tightening are forcing some executives to turn to outside managers in their search for higher yields on their short-term cash portfolios.

Short-term rates have dropped 300 to 400 basis points in the past 18 months, pulling the yield on traditional short-term investments down to their lowest point in months.

"Many corporate treasurers are starting to find that the buy-and-hold strategies they have used are not as successful," said David Blanchard, managing director at Twenty-First Securities Corp.,

See **Rates** *on page 39*

NEWS DIGEST



Torch Energy Advisors, which operates this oil rig in the Gulf of Mexico, is one of several oil and gas companies attracting the interest — and assets — of pension funds. Page 35.

SPECIAL REPORT: PIPER

Health care, technology and specialty retail stocks lead returns for the third quarter and year. Page 17.

FINANCING

Vulture investors are in line for a windfall under Goldriver Finance Corp.'s amended reorganization. Page 3.

INTERNATIONAL

Performance of emerging markets over nearly seven years has lagged developed non-U.S. markets. Page 3.

REAL ESTATE

The former chairman of Trident Investments Inc. settles a suit filed by his former employer. Page 4.

Pension fund officers are getting new scares as falling property values send open-end commingled funds tumbling to one of the lowest levels ever. Page 17.

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Manager Scoreboard poll under way

Questionnaires for *Pensions & Investments*' annual survey of the growth of money managers have been mailed. The completed forms, to be used for a special report published Feb. 3, must be returned by Dec. 31. If you do not receive a questionnaire, or if you have any questions, contact Christine Philip, directory coordinator, at (312) 649-5217.

Shut out of market neutral

Trustee accounting problems too much for most funds

By Terry Williams

All but the most sophisticated pension funds are being shut out of market neutral investing because master trustees can't record short sales and reflect the negative values that result when the strategy is implemented.

Most institutional investors also will be reluctant to put money into market neutral because of the use of broker/dealers to perform the custody function, an alien concept for investment committees and trustees.

Market neutral advisers buy stocks they believe are undervalued and sell short those they expect to perform poorly. The proceeds of the short sale are invested in Treasury bills, thus locking in a risk-free rate. Returns are enhanced if the stocks that were bought rise and those that were sold short go down.

"There isn't a trustee in the country that can handle these market neutral strategies," said David White, treasurer and chief investment officer of the $2.1 billion Rockefeller Foundation, New York. "It will be a great impediment to the widespread (use) of these kinds of strategies."

Mr. White inherited Rockefeller's market neutral portfolio, but is well versed in the strategy. He guided the $4.5 billion pension fund of Unisys Corp. into the strategy during his tenure as chief investment officer. He would not say how much Rockefeller has in the market neutral strategy.

But for pension funds already running money in the strategy, that's the way they want it.

Donald Borneman, assistant vice president-asset management with the $1.6 billion Consolidated Natural Gas Co., Pittsburgh, and a market neutral investor, put it very succinctly: "Fewer people means more opportunities." Consolidated has $25 million in the strategy.

Many master trustees' record-keeping systems are not equipped to handle the short sales and negative positions that are part of the strategy, according to two market neutral strategists who asked their names not be used.

But representatives at one bank — Boston Safe Deposit and Trust Co. — claim its institutional accounting system, which was implemented in the first half of this year, can handle the transactions.

"Our system looks at the nega-

See **Neutral** *on page 41*

GIC assets moving to bonds

By Fred Williams

Up to 10% of the assets earmarked this year for the guaranteed portions of defined contribution plans is going into actively managed bond accounts instead of into GICs.

Plan executives are turning to bonds as yields on guaranteed investment contracts shrink and credit concerns about the insurance industry rise.

Plan sponsors using, or considering using, bonds in their guaranteed accounts are BASF Corp., Parsippany, N.J.; Xerox Corp., Stamford Conn.; Dayton (Ohio) Power & Light Co.; Sandoz Corp., New York; Halliburton Corp., Dallas; and the American Stock Exchange. Others said to be looking at bonds include Fluor Daniel Inc., Irvine, Calif., and Amgen Corp., Sherman Oaks, Calif.

Among GIC alternatives, synthetic GICs are more popular than bonds, probably accounting for about three times the amount of placements. But bonds are appealing because an actively managed bond portfolio could outperform a GIC or synthetic GIC portfolio.

Robert Hunkeler said Sandoz would consider synthetic GICs before active bond strategies.

The bonds are marked to market and not subject to book value accounting like GICs and synthetic GICs.

Short- to intermediate-term bonds with low volatility are used as GIC alternatives. Bond managers say such investments can substitute for a portion of GICs without subjecting the portfolio to wild price swings.

Most bond managers with short- to intermediate-term strategies report gaining assets that would have gone to GICs in the past.

They include: Piper Capital Management, Minneapolis; RNC Capital Management, Los Angeles; Neuberger & Berman, New York; Brown Brothers Harriman & Co., New York; Sterling Capital Management, Charlotte, N.C.; Garner Asset Management, Little Rock, Ark.; Merganser Capital Management, Cambridge, Mass.; Mellon Bond Associates, Pittsburgh; and Daniel Breen & Co., Houston.

See **Bonds** *on page 41*

Montana mortgage move a first

By Anne Schwimmer

HELENA, Mont. — The Montana Board of Investments' recent decision to team up with a Maryland savings and loan to invest in mortgage service contracts might prove a big trendsetter, much to the fund's surprise.

"We're just kind of amazed at the amount of interest in this," said Dave Lewis, executive director of the $3.8 billion fund. He said the fund had received calls from other pension executives and from consultants interested in learning more about teaming up with S&Ls to invest in mortgage servicing contracts.

"I just had a call from a consultant who was evaluating it for the Massachusetts funds. We're aware that several of the other Western funds are looking at it," he said.

The Massachusetts consultant, Universal Investment Services Inc., Boston, declined to comment on its plan.

"I think we're the first pension fund to have done so," Mr. Lewis said. "I don't think we're going to be the last by far."

The fund has committed $25 million to a partnership with the Standard Federal Savings and Loan Association, Gaithersburg, Md. The S&L will offer the partnership the opportunity to invest in certain servicing rights.

As a partner, the pension fund will choose whether or not the group should acquire those rights. Then the fund will supply the capital to acquire the rights it agrees are attractive, while the S&L will service the mortgages.

"We're the capital in the partnership, and then Standard Federal provides the expertise," Mr. Lewis said. "They, as do most savings and loans, have very strict requirements to increase their capital requirements. They just didn't have the capital to purchase" the servicing rights, Mr. Lewis explained. He added the S&L is looking for other investors for the partnership.

"We realized we didn't know much about it, so we retained a consultant who spent about three months doing a real thorough review of this company" and the investment opportunity.

The opportunity intrigued the Montana fund because of "what appeared to be very comfortable returns and a reasonable level of risk," Mr. Lewis said. "Our consultant felt that it was not unreasonable to expect something like 15%" in returns, he added.

The consultant, Fred Flanders, could not be reached for comment. He was working as an independent consultant at the time and now is president of the Valley Bank of Helena.

The decision to go ahead ultimately brought another benefit to the state fund, Mr. Lewis said. "A corollary benefit is that they are going to open a servicing center here in Montana. They're going to bring some people out here. . . . It's going to start at 75 and then grow to 250 to 300 (new jobs) over a few years. It's a good opportunity for us and it works out well from both perspectives," Mr. Lewis said. ■

Performance lag emerges

Upstart markets as a whole trail developed countries

By Margaret Price

The overall performance of emerging stock markets over a nearly seven-year period has lagged that of developed non-U.S. markets, calling into question whether the returns justify the additional risks and costs.

Investing in emerging markets — such as those in Chile, Thailand, Mexico and other Third World countries — has been gaining popularity among pension funds and other institutional investors seeking portfolio diversification and incremental returns.

Between the end of December 1984 and September 1991, the International Finance Corp.'s Composite Index — composed of 836 stocks in 20 developing countries — returned 20.2% in U.S. dollar terms, compared with the Morgan Stanley Capital International Europe Australia Far East Index's 22.8%.

During that same period, the IFC composite surpassed the Standard & Poor's 500 Stock Index by 3.1 percentage points.

(Eastern Europe markets still are too young to be a strong investment draw and aren't included in most major benchmarks.)

Individual emerging markets and specific regions have outpaced overall indexes. Fueled by gains mainly in recent times, the IFC's Latin America Index posted a compound annual 30.1% return in U.S. dollar terms between the end of December 1984 and September 1991. The IFC Asia Index rose 21% during the same period.

But managers can't always call the markets right. During a one-year period ended Sept. 30, an average of nine global emerging markets funds studied by Lipper Analytical Services Inc., Summit, N.J., failed to beat the IFC composite.

To at least some emerging market proponents, the IFC composite suffers from certain flaws: heavy weighting in countries, including South Korea, where it has been difficult for foreigners to invest and limitations on the amount of a company's shares foreigners can buy in some countries.

Some managers cite a preference for the MSCI Emerging Markets Free Index, which includes only countries that don't have strong restrictions on foreign investment. Between its inception in January 1988 and Oct. 31, 1991, the emerging market index rose 262.4% compared with EAFE's 14.8%. The index, however, covers fewer markets than the IFC composite.

Some experts also point out comparable data will vary according to periods studied. For example, for the year ended Sept. 30, the IFC composite returned 33.7% vs. 22.3% for EAFE. The nine, mostly closed-end, emerging market funds tracked by Lipper had an average return of 29.76%.

In addition, advocates say emerging market returns are lowly correlated with each other and with those in developed markets, leading to a lower overall portfolio risk.

"The critical issue for pension sponsors is: 'Am I getting sufficient incremental return from my emerging markets exposure for the risk I am taking?' and 'Am I getting sufficient diversification against my holdings in major markets?' " said William McBride, international editor, Lipper Analytical Services. In most cases, he thinks emerging market investors are achieving those goals.

Edwin J. Ehrlich, director-pension fund trusts for ITT Corp., New York, calls his fund's emerging market investments "spectacular." A little more than two years ago, the fund invested $15 million each into two separate emerging markets strategies: one employing Los Angeles-based Capital Guardian Trust Co.'s Emerging Markets Growth Fund; and another using Lazard Freres & Co., New York, which invests in emerging markets through investment trusts (*Pensions & Investments*, Oct. 16, 1989).

According to Mr. Ehrlich, "between Aug. 31, 1989 and September of this year, our Capital Guardian strategy is up close to 17% compared with −3.5% for EAFE." Between June 30, 1989 and Sept. 30, 1991, the investment trust strategy rose 9%, compared with a flat EAFE performance, he said.

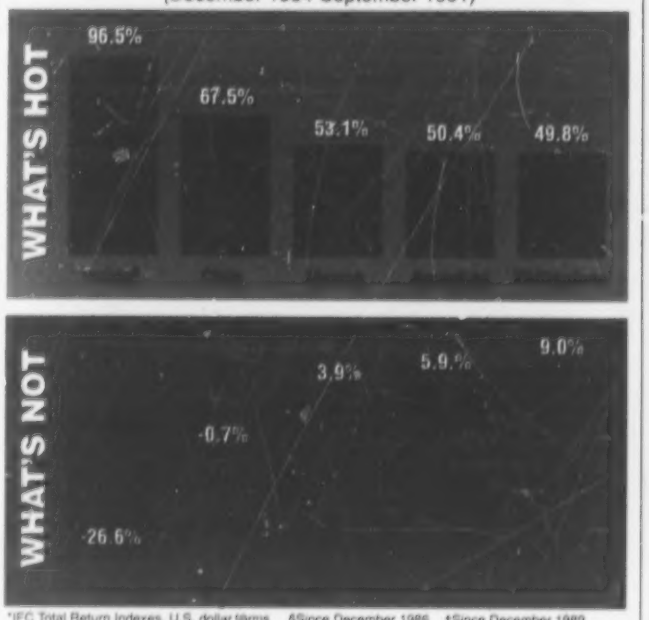
The approximately $25 billion State of Wisconsin Investment Board, Madison, is "doing fact-finding on emerging markets, and our board may consider (that area) in the near future," said James Severance, a portfolio manager for the fund. "We think (emerging market) returns can and will be superior, and that there is going to be opportunities unleashed around the world."

Emerging market investing remains highly risky. Experts cite such problems as market volatility, illiquidity, speculation, timeliness of trading and settlements, among a host of other concerns.

Emerging markets such as In- *See* **Emerging** *on page 41*

Emerging market performance*

(December 1984-September 1991)



*IFC Total Return Indexes, U.S. dollar terms §Since December 1986 †Since December 1989
Source: International Finance Corp., Washington
CYNTHIA WATSON

Investors' bond bet a winner

By Marlene Givant Star

LAUGHLIN, Nev. — Vulture investors such as the Harvard University endowment and the Rockefeller Foundation would get a windfall under an amended reorganization plan filed by Goldriver Finance Corp. and a committee of its bondholders.

The reorganization, expected to be approved Dec. 4, calls for bondholders to get 67% of the stock and all of the new notes to be issued by the company.

Bondholders of Goldriver include Massachusetts Financial Services; Keystone Custodian Funds; Equitable Capital Management Corp.; National Bond Fund; Merrill Lynch Asset Management; State Street Research & Management Co.; and Whippoorwill Associates, which runs money for Harvard and Rockefeller.

These investors bought the bonds shortly after the company's Chapter 11 filing in February.

Original holders, who suffered a principal loss on the bonds, and some analysts think the outstanding bonds of the bankrupt casino company are still attractive given the prospects for Goldriver and the casino gaming industry.

The reorganization plan will be funded principally with cash generated by the casino and the contribution of $6 million of cash for 33% of the outstanding common stock of the reorganized company. The contribution will be made by a group of individual investors led by John H. Midby, who was the general partner and principal owner of the casino. He will remain an owner through his new investment.

Under the plan, interest will begin to accrue on the new notes, with expected distribution of the new security package occurring when the company's gaming license is transferred to its new management team by the end of

See **Bet** *on page 40*

Strong earnings potential for Sam's Town Gold River casino hotel could mean a big payoff for Goldriver bondholders.

Firm limits UAW health care costs

By Curtis Vosti

ST. LOUIS — McDonnell Douglas Corp. is capping health costs for its UAW retirees beginning in 1996 in an effort to stem a reported $500 million liability for their post-retirement health care.

The cap for the firm's 23,000 UAW members addresses just part of the company's liability, estimated at $3 billion by industry analysts.

Under a contract approved last month, McDonnell Douglas will cap its costs for UAW members at $6,537 annually for single coverage and $14,382 annually for family coverage. Future retirees with less than 30 years of service will pay a portion of the cap.

The plan, approved by five locals of the United Automobile, Aerospace and Agricultural Implement Workers of America, has drawn criticism from some union leaders. They call the imposition of graded health premiums the start of a potential "conflict for benefits between active and retired members." In some cases, they say, the health premiums will be more than the pension benefits for retirees.

McDonnell Douglas officials declined to be interviewed for this article. The firm, which employs about 120,000 nationwide, has to begin contract negotiations with four International Association of Machinists locals in 1992. A retiree health care cap is expected to be an issue in those negotiations as well.

Last month, UAW Amalgamated Local 148, which represents about 19,500 workers at the firm's Long Beach, Calif., plant, approved a negotiated package that calls for workers who retire after 1994 to pick up a portion of health premiums beginning in 1996. The four-year contract, which runs until March 1995, exempts from premium payments those who retire between now and Jan. 1, 1994 and accumulate 75 points (based on years of service plus age).

The other four, much smaller, locals approved the original company proposal that exempts those with 75 points who retire before 1993 and imposed the graded health premiums in 1993. But with Local 148 opposing that, the contract it ratified last month applies to all the unions. It sets up the possibility the cap will be an issue in the next round of negotiations before the graded premiums kick in.

The cap, which takes effect in 1996, imposes higher health insurance premiums for those who retire after 1994 and on those who retire before then without accumulating 75 points.

Currently, retirees pay $10.40 per month for single health coverage and $20.80 per month for family coverage.

Under the new plan, retirees with 10 years of service will pay 60% of expenses up to the cap plus any costs beyond the cap; those with 15 years of service will pay 45% up to the cap plus any

See **Cap** *on page 42*

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Equity ■ Balanced ■ Fixed Portfolios

Trident settles suit against former exec

By Steve Hammerick

LOS ANGELES — Robert C. Weiner, former chairman of Trident Investments Inc., has reached an out-of-court settlement in a suit brought by his former employer.

Under the settlement, Mr. Weiner agreed to return 46,000 shares of Pacific Inland Bancorp., valued at $250,000, according to Jonathan Cole, an attorney representing Trident Investment and its former parent, Pacific Inland.

Trident and Pacific Inland had filed a civil suit filed in Los Angeles Superior Court last November seeking more than $2 million in general and punitive damages after charging Mr. Weiner with breach of employment contract, breach of fiduciary duties, constructive fraud, unfair competition and other charges.

Another lawsuit involving Trident Investment — filed by Sidney Hansen, the firm's former chief executive officer, in Orange County Superior Court, Santa Ana, Calif. — is still in litigation.

According to the first lawsuit, Mr. Weiner "schemed" to take away Trident's chief client, the $2 billion Chicago Municipal Employees' Annuity and Benefit Fund, while he was still working for Trident.

Trident earned in excess of $750,000 a year in fees for managing a $547 million real estate and venture capital portfolio for the Chicago pension fund.

Mr. Weiner sought the Chicago pension fund's business for his own new firm, JCW Investments Inc., now in Ridgewood, N.J.

Mr. Weiner had agreed to $120,000-a-year base salary, plus a maximum bonus of $60,000 a year, when he signed a five-year consulting agreement with Trident in February 1982. That agreement, according to the lawsuit, said Mr. Weiner was not to render any investment or advisory services in competition with Trident for two years after the agreement expired.

Though the agreement would have expired in February 1987, it was extended by mutual agreement, according to the suit.

Mr. Weiner, however, unilaterally terminated the consulting agreement in December 1988, according to the lawsuit.

The lawsuit said Trident received a letter from the Chicago fund in November 1988, saying it was terminating Trident because Mr. Weiner was leaving the firm and the fund would sign a new contract for pension management services with him.

When Trident was terminated by the Chicago pension fund in December 1988, "Trident's business totally deteriorated, and it has essentially been put out of business," according to the lawsuit.

(When asked in an interview if Trident still was in business, Philip Bourdillon, president of Trident Investments, said: "Not really. We're on a back burner. It's a long story." He said he couldn't say anything more at this time.)

Mr. Cole said Trident agreed to the terms of the settlement that involved substantially less than the $2 million in damages sought in part because Mr. Weiner never gained the Chicago pension fund as a client.

"The fact that (Mr. Weiner) did commit some wrongful conduct

See **Trident** *on page 41*

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The Nikkei 225 futures contract on the Chicago Mercantile Exchange is now the number one Japanese stock index contract traded on any U.S. exchange.

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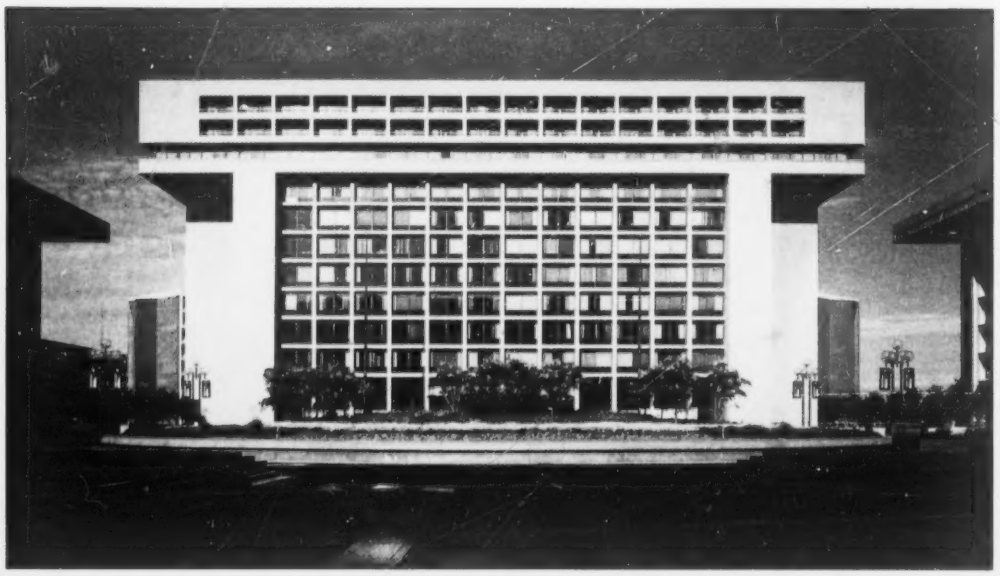
CORRECTIONS & CLARIFICATIONS

• **Ennis, Knupp & Associates** has 67 tax-exempt retainer clients. An incorrect number was published in the Nov. 11 consultants' directory.



L'Enfant Plaza, a Washington commercial complex, is the headquarters of Eastern Realty Investment.

REAL ESTATE

Manager looks outside U.S. for property investors

■ Shortly after the London-based Electricity Supply Pension Scheme's U.S. real estate subsidiary decided to market its investment advice to other investors in 1989, the bottom dropped out of the U.S. market.

The $17 billion pension fund — one of the largest in Great Britain — had long been an investor in U.S. real estate. L'Enfant Plaza, a 2 million-square-foot hotel, office and shopping complex in Washington, is both the cornerstone and headquarters of its U.S. real estate unit, Eastern Realty Investment Management Inc.

But even with a strong 10-year track record and an unusual opportunity to co-invest alongside one of Britain's largest pension funds, U.S. pension executives shied away from the plunging real estate market, explained Frank Pfau, vice president for institutional accounts at Eastern.

Even a British investor — Allied Dunbar Properties Inc., London — withdrew a $30 million commitment.

Instead, Mr. Pfau soon expects to close a $100 million-plus pool for investment in U.S. property with private German investors and believes future investments will come largely from other private investors based in Europe, the Far East and Near East.

— Joel Chernoff

INSURERS

Big players taking junk-diet route

■ After more than a year of high-profile problems and the failure of four major insurance companies largely due to losses on their junk bond portfolios, many large insurance carriers have begun reducing their junk bond investments, a survey shows.

The survey by Weiss Research Inc. shows 10 of the largest insurance carriers that held 10% or more of their investments in junk bonds in 1990 have reduced their holdings by an average of more than 25% of invested assets.

The most aggressive seller is United Pacific Life Insurance Co., Seattle, which had been among the most aggressive junk bond investors. United Pacific reduced its exposure by nearly 48%.

Jackson National Life Insurance Co., Lansing, Mich., also dramatically reduced its junk portfolio from 19.3% of invested assets to 11%.

A spokeswoman for Weiss said the decline does not mean the insurance industry is now on sound footing, "but it represents an awareness of the problem that they were over-invested in junk bonds in the current economic climate and that it was prudent to reduce those holdings."

She said the survey did not include questions on real estate. Weiss is a West Palm Beach, Fla., financial services research and rating firm.

— Fred Williams

Junk bond holdings of insurance companies

Percent of invested assets; companies have $4 billion or more in assets

Company	June 30	Dec. 31
United Pacific	17.2 %*	32.9 %
Anchor National	15.8	22.6
Kemper Investors	15.5	22.4
Northwestern National	15.5	16.9
Jackson National	11.0**	19.3
Pruco	10.2	12.3
Sun Life of America	9.9	14.4
Fidelity & Guaranty	9.7	12.9
Keyport	9.5	11.1
Allstate	8.7	10.1

*Reflects data as of July 31 **Reflects data as of Aug. 29
Source: Weiss Research Inc., West Palm Beach, Fla. CYNTHIA WATSON

CORPORATE GOVERNANCE

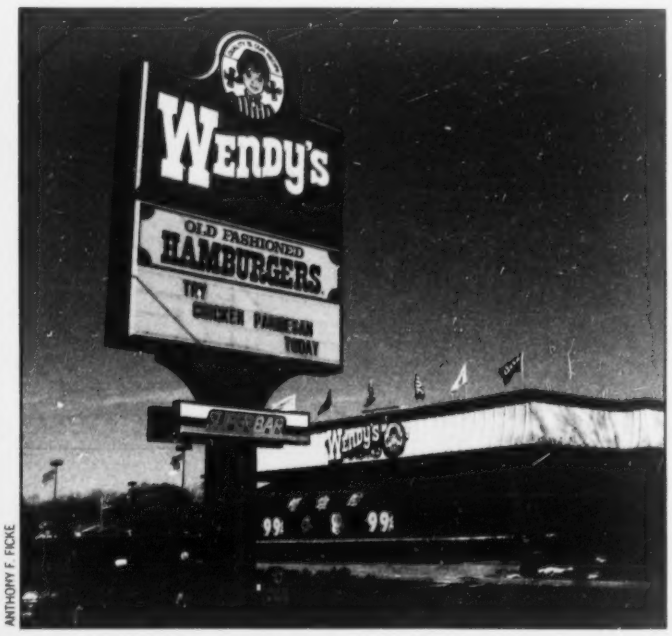
Wendy's changes shareholder menu

■ Wendy's International Inc., Dublin, Ohio, has adopted a policy requiring its chairman and a majority of its board nominating committee be independent, outside directors.

The new policy and an earlier decision to adopt a companywide employee stock option program, prompted the United Shareholders Association, Washington, to release the fast-food chain from its shareholder activism campaign.

The new stock option plan, which links the compensation incentives of management and employees to improved stock price performance, "puts Wendy's on the cutting edge of shareholder rights," said Ralph V. Whitworth, president of the organization of individual shareholders.

— Marlene Givant Star



ANTHONY F. FICKE

Wendy's new policy on independent directors was praised by a shareholder activist group.

WASHINGTON

'Pension losers' miss out again

■ The Senate voted 51-46 to strip the "pension losers" provisions from the Older Americans Act, effectively killing the measure for this year.

Those provisions would have saddled the Pension Benefit Guaranty Corp. with anywhere from $340 million to $500 million in liabilities to cover the unfunded pension benefits of participants whose plans were shut down before the Employee Retirement Income Security Act was passed in 1974.

The bill "represents an unprecedented and disastrous raid" on the PBGC trust fund, Sen. Orrin Hatch, R-Utah, argued in the lengthy Senate debate.

The Bush administration had opposed the measure, which it argued would have burdened the PBGC, already beset with a $2 billion-plus deficit. Secretary of Labor Lynn Martin also claimed the bill would have circumvented budgetary rules, and that administering benefits for persons whose plans terminated 20 or 30 years ago would have been an administrative nightmare.

But supporters of the bill, led by Sens. Brock Adams, D-Wash., and Howard Metzenbaum, D-Ohio, the legislation's sponsor, argued the PBGC could afford to pay the $51 million and declining annual cost of providing benefits to some 38,000 surviving participants and beneficiaries. Under the bill's formula, participants could receive a maximum benefit of $1,500 a year.

— Joel Chernoff

INTERNATIONAL

TV, 3-hour lunches worth a mention

■ Amid the serious discussion of emerging markets at *Pensions & Investments*' second annual World Congress on Global Investment Management were these remarks:

● "If I had a vote, the 1992 Nobel Peace Prize would go to Ted Turner" — Madhav Dhar, principal with Morgan Stanley Asset Management, New York.

"With television in every small village . . . governments can run but they can't hide."

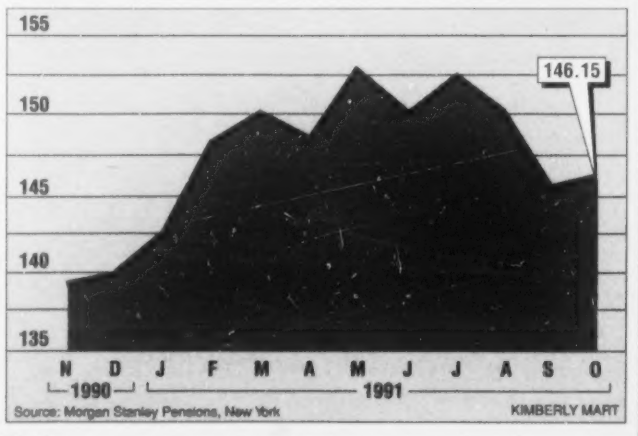
● "I have a money manager friend who won't buy stocks in any country that takes a three-hour lunch break" — E. Douglas Taylor, executive director of investment management at Pacific Telesis Group, San Francisco, and chairman of the global investment conference.

Mr. Taylor's remark came during his discussion of five factors he considers important for an emerging market.

The lunch break theory goes under strong work ethic, Mr. Taylor said.

— Nancy K. Webman

Pension surplus index



Source: Morgan Stanley Pensions, New York KIMBERLY MART

Shareholder activism without proxy proposals

By Robert A.G. Monks and Nell Minow

The California Public Employees' Retirement System has been the leading shareholder activist since the early days of Jesse Unruh protesting Texaco's payment of greenmail. Since 1987, the cornerstone of the California system's corporate governance program has been the shareholder resolution, which has garnered increasing levels of support, inspired similar proposals from other pension funds, and achieved a number of negotiated improvements with management.

Now, the system's board of trustees has decided the pension fund will abandon the shareholder resolution. It won't introduce any in the coming proxy season. California Employees' chief executive officer, Dale Hanson, argues the role of shareholders in corporate governance has advanced to the point that a resolution is not necessary to get management's attention. Mr. Hanson believes the retirement system can achieve results by communicating with managements discreetly and outside of the confrontational atmosphere of proxy solicitation. Will this new tactic work?

One has to turn back a half-dozen years to understand the role shareholder resolutions have played in creating a system of accountability. So long as shareholders were able only to respond to management's proposals, there was no possibility that any shareholder would have enough at stake to make the expense of meaningfully opposition sensible.

But the takeover boom presented shareholders, especially fiduciary shareholders, with abuses to which they had to respond more directly. When shareholders chose the ground, they chose symbolically and simply. Do you want to permit management to restrict your right to sell your stock to a willing buyer at a mutually agreeable price, without putting it to a shareholder vote? No. Then vote for the resolution *asking* management to secure shareholder approval of "poison pills." Do you want to permit management access to all ballots to permit them to resolicit (and pressure) shareholders who vote against them, something no one else can do? No. Then vote for a resolution *requesting* management to adopt confidential voting. The resolutions submitted by the California fund and other plans were precatory and polite. They were not designed to force management to do anything; rather they were to "raise consciousness" that the corporate form of organization must be based on effective accountability of management to owners.

The California system improved its program each year, and ultimately found one sure way to make managements uncomfortable enough to really get their attention. That was through a shareholder resolution calling for the establishment of "shareholder advisory committees." Management didn't want to take the chance it might lose a vote calling for the establishment of such an institution; therefore, it had to talk with the retirement fund before the deadline for withdrawing the resolution. From all accounts, these discussions were conducted in a cooperative environment.

Consciousness of shareholder power certainly has been raised. But this is largely a matter of appearances. Management's interest is in being able to point to something to give the appearance of an effective system of governance. The California retirement fund, with its highly visible initiatives that still were not binding and not directed at any meaningful strategic issues, gave management a "colorable claim" to accountability, without any real threat to the exercise of power. Particularly poignant was ITT Corp.'s management, which assured the California system it would welcome the opportunity to sit down and talk over questions of mutual interest, to unleash only a week later the bombshell of the eight-figure salary of its chief executive officer, Rand Araskog. Thus, the fabled strength of the institutional investor seemed thwarted again.

Management made changes, but the changes were of tone, of vocabulary, of approach. It was so important to appear to defer to the "sleeping giants" that the Business Roundtable even underwrote a study "showing" how powerful the institutional shareholders had become. The study, of course, was used to support the Roundtable's claim that the institutions were so powerful the Securities and Exchange Commission should keep in place the impediments to any additional actions.

But there have been some signs of real advancement. Management took part in a continuing outreach process with public pension funds, culminating in the publication in the July-August 1991 Harvard Business Review of a new governance compact between owners and directors. Although couched in generalities, this statement was a great accomplishment. It represents recognition by leading figures of management and ownership of their need for each other; the according desirability of a cooperative relationship; the crucial importance of independent directors as the key link between their interests; and the efficacy of dialogue.

RICHARD STERGULZ

The important question is whether the compact is an end or beginning. Will both parties continue the process?

The recent proxy rulemaking at the SEC, involving some very mild proposals to amend the technical rules governing communication among shareholders, has resulted in an unusually large and diverse number of comments. Every comment filed by management opposed the rules, and every comment filed by shareholders supported them (or alternative changes). So far, business as usual. The Roundtable not only filed its own comment, and comments by its members and supporters, but they pulled out all the stops to derail the whole process. The powerful business group, according to a report, has been meeting with senior administration officials, bypassing the SEC, to kill the proposed rules. The most recent news is that SEC Chairman Richard Breeden has agreed to watering down the staff proposal.

On the other hand, there is encouraging evidence some corporate managements have found the exposure to their owners to be productive. Conspicuously, Lockheed Corp.'s chief executive officer, Daniel M. Tellep, came out of his spring 1990 "baptism of fire" in the Harold Simmons proxy contest to reach out, to solicit suggestions for board nominees from owners. Ultimately he chose four utterly new candidates, whose involvement he found enriching to the company. Dale Hanson is betting Mr. Tellep represents the emerging trend in corporate America and the Business Roundtable's stonewall opposition is a relic of the past.

The submission of H. Brewster Atwater, chairman of the Business Roundtable's Corporate Governance Task Force, to the SEC last September offers some hope. In the midst of his objections to the proposed amendments, he notes: "If interested shareholders focus their attention and efforts on poorly performing companies, the current proxy process can be used very effectively to remedy problems without undue cost of burden." There is, thus, a level of agreement at the top — both Messrs. Hanson and Atwater agree it is appropriate for institutional investors to take some action with "poorly performing companies."

The California Employees' new program will include the same kind of selection of target companies as in the past, but this time the fund's officials will begin discussions with a telephone call instead of a registered letter containing a proxy resolution proposal. The fund will raise issues in direct discussions with management, rather than the awkward approach through shareholder proposals.

We have, therefore, a basis for optimism in looking forward to accomplishments in 1992 with California's 12 target companies. If there are no accomplishments, at least institutional investors will know the California Employees' took the lead in trying the high road. Sooner or later, we have to learn whether there is any substance in the widely proclaimed corporate governance movement. ■

Robert A.G. Monks is president of Institutional Shareholder Partners Inc., Washington. Nell Minow is a member of the board of directors of Institutional Shareholder Services Inc., Washington.

LETTERS TO THE EDITOR

Do not bureaucrats bleed?

■ David Langer has become distressed at the gross overregulation of his line of work. So David has decided to take on the modern Goliath, government. In a July 9 commentary, he charged "mismanagement and corruption at the government level." "The abuses of government," he adds, "ought to be the primary target."

I don't think he has it quite right. The chief problem is excessive "government," not abusive government. The more regulators, the more regulations. One can no longer say, with Will Rogers, "Thank God you're not getting all the government you're paying for." We are are suffering from "hyperlexis," as another wit recently called it.

What David wants, along with every sensible person, is "a minimum of additional burden and cost for both sponsors and government." I am convinced that most governmental regulators now in high policy positions do also. It does no good to inveigh against them with such charges as "colossal failure," "unsound management" and "corruption," which they might perceive as opprobious. Does not a bureaucrat bleed?

There are hopeful signs of a bare beginning of the process of pension simplification on Capitol Hill and elsewhere in government. Bare beginnings aren't enough. Take the Garden of Eden. Let's not make the road harder to travel by paving it with bad invectives. We need all the government people we can get on our side. They are more valuable as allies than scapegoats.

Alvin D. Lurie
Meyers Tersigni Lurie Feldman & Gray
New York

RREEF revises figures

■ In regard to RREEF's tax-exempt assets listed in the page 19 table of "Largest Real Estate Managers" in the Sept. 16 issue:

The correct tax-exempt total is $4.188 billion not $3.421 billion; the correct equity amount is $4.139 billion not $3.372 billion; and the correct fully discretionary amount is $3.25 billion not $2.487 billion.

Dana D. Gulseth
Supervisor Client Reporting
RREEF
San Francisco

Editor's note: The revisions change some totals at the bottom of the chart. Tax-exempt assets now total $128.049 billion; equity assets, $104.522 billion; and fully discretionary assets, $90.166 billion.

No haven in realty storm

Returns dismal; little hope of rescue seen on horizon

By Steve Hemmerick

Pension fund officers are getting new scares from real estate as falling property values have sent open-end commingled real estate fund performance numbers tumbling to one of their lowest levels ever.

The median open-end fund scored a total return of −0.4% for the quarter ended June 30, according to the Pensions & Investments' Performance Evaluation Report.

For the year, the median total return scored almost as low, at −0.3%.

The negative median number is the first for open-end commingled real estate funds since PIPER began recording real estate numbers in 1988, and probably the first negative median number since the real estate recession of the mid-1970s.

One of the lowest open-end fund return numbers comes from the once-high-flying $2.7 billion Development Properties Account of Copley Real Estate Advisors, Boston, which scored a minus −14.4% for the year.

The Copley fund had been scoring returns in the high teens only a few years ago.

The worst return, −18%, for the year came from Bank of Boston's Real Estate Fund.

Other low returns came from the $539 million NCNB Real Estate Fund of NCNB National Bank of North Carolina, Charlotte, at −10.1%; and the $850 million Participating Mortgage Separate Account of Aetna Realty Investors Inc., Hartford, Conn., with −6.5%.

Pension fund officers increasingly are comparing their real estate return with returns from other asset classes to help define where they should be putting their available cash. The declining numbers from real estate have made stocks and bonds look even better. For the year ended June 30, the S&P 500 returned 7.4%, and the Shearson Lehman Government Corporate Bond Index returned 10.2%.

Falling returns from real estate continue to disturb pension fund investment officers.

Keith Geddis, real estate investment officer for the $11.4 billion Los Angeles County Employees' Retirement Association, said pension funds need to put on "probation" those real estate managers who aren't performing to expectations, and ultimately terminate them if there is no improvement in performance. Pension funds, he said, can be patient but not passive. The fund is considering the strategy for cases in which performance has been poor, he added.

And the investment return numbers from real estate likely will get worse.

"I think you are going to see substantial negative numbers in real estate for the rest of this year. I think the negative numbers will continue into next year because they are going to reflect current declines," said Nori Gerardo, a principal in the Portland, Ore., office of the pension consulting firm Pension Consulting Alliance.

Serious problems continue in real estate in the economically troubled Northeast, she said.

But problems are building in California, soon to touch real estate advisers with substantial real estate exposure there.

"Historically, California has been perhaps one of the strongest regions (for real estate). For the first time we are beginning to see writedowns in California," said Ms. Gerardo.

She said some real estate managers have claimed their California real estate has been a "saving grace" for them because that state's economy has been so diversified.

But, she said, "We are seeing negative numbers (in California) right now."

The turmoil in real estate has contributed to what Ms. Gerardo called a "precipitous drop-off" in commitments to real estate by pension funds and and advisers "other than a handful who have decided to dollar cost average in."

For the year ended June 30, the median return for closed-end funds barely remained positive, at 0.4%. But some of the worst performing closed-end funds have had lower numbers than open-end funds.

For the 12 months, the $90 million State Street Real Estate Fund IV, managed by Aldrich Eastman & Waltch, Boston, returned −65.9%; Fund I of Baring Institutional Realty Advisors, New York, returned −40.1%.

Ms. Gerardo said, however, some of the real estate funds with the poorest returns are the funds that are writing down values now, and some other funds might have to write down values later.

As real estate is written down, it is the beginning of the break in prices that investors have been seeking, she added.

Some commingled real estate funds have been doing well even in the current depressed real estate market.

For the year, the top performing — 14.9% — open-end fund was the $875 million Separate Account Timber Fund of John Hancock Financial Services, Boston. Tops among closed-end funds for the period was the $29 million Mortgage Fund II of INVESCO Realty Advisors, Dallas, with 14.2%. ■

PIPER fixed-income funds

Periods ended Sept. 30

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	10.3	33.8	15.3	12.5	17.5
First quartile	8.0	16....	11.4	9.8	14.7
Median	5.5	15.0	10.9	9.1	13.5
Third quartile	4.3	13.3	10.2	8.6	12.7
Lowest return	0.0	7.0	5.3	7.2	9.0
SLB G/C	5.8	15.9	11.3	9.1	14.2

PIPER equity funds

Periods ended Sept. 30

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	21.6	72.5	29.9	23.0	25.3
First quartile	7.9	35.9	17.7	15.0	17.4
Median	5.6	31.3	15.7	13.7	16.6
Third quartile	4.5	30.7	13.5	11.9	15.2
Lowest return	-0.9	11.1	-0.4	1.1	11.0
S&P 500	5.4	31.2	16.5	14.7	17.5

PIPER special equity funds

Periods ended Sept. 30

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	21.8	112.2	41.2	23.9	21.5
First quartile	13.1	57.4	21.6	16.7	18.8
Median	9.0	46.9	16.5	13.9	16.8
Third quartile	6.2	39.4	12.0	10.6	13.4
Lowest return	0.9	10.6	-1.8	4.0	9.4
S&P 500	5.4	31.2	16.5	14.7	17.5
Russell 2000	8.2	45.1	8.7	8.2	12.9

PIPER+ fixed-income funds

Periods ended Sept. 30

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	12.0	34.8	20.6	16.5	20.1
First quartile	8.2	19....	11.7	9.8	14.8
Median	5.7	15.8	11.2	9.4	14.4
Third quartile	3.8	12.3	9.5	8.6	13.2
Lowest return	1.4	7.4	8.1	6.6	10.2
SLB G/C	5.8	15.9	11.3	9.1	14.2

PIPER+ equity funds

Periods ended Sept. 30

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	24.7	107.1	42.6	31.7	38.6
First quartile	9.6	42.8	19.2	17.2	19.3
Median	6.7	35.0	16.1	14.4	17.8
Third quartile	4.8	31.3	13.5	12.5	16.2
Lowest return	-3.7	-3.3	3.3	5.6	11.8
S&P 500	5.4	31.2	16.5	14.7	17.5

PIPER+ special equity funds

Periods ended Sept. 30

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	27.0	81.3	36.2	41.5	35.8
First quartile	8.8	39.5	17.1	13.8	18.7
Median	6.4	27.7	11.2	10.0	15.6
Third quartile	3.9	22.7	8.4	8.1	14.0
Lowest return	-11.9	-25.5	-0.1	1.3	11.0
S&P 500	5.4	31.2	16.5	14.7	17.5
Russell 2000	8.2	45.1	8.7	8.2	12.9

Growth is key to success

Smaller stocks continue on their performance joy ride

By Sabine Schramm

Health care, technology and specialty retail growth stock portfolios led third-quarter and one-year returns for both PIPER and PIPER+ equity funds.

Small- and medium-capitalization growth stocks continue to be attractive to investors. Small-cap growth managers, after a seven-year slump, are optimistic about the trend and look forward to a cycle of five to seven years of good performance, according to Parag Saxena, managing director at Chancellor Capital Management, New York. The firm's $91 million small-cap growth fund returned 107.1% for the year ended Sept. 30, finishing first in the PIPER+ universe.

Mr. Saxena said trends that made large companies attractive in the 1980s, like liquidity and growth, are no longer true. He also sees a move away from indexing "now that small companies are doing well, people will be forced to be stock pickers."

"Small companies are less encumbered than large companies, not depending on earnings share," said Anthony Nappi, president and chief executive officer at Provident Mutual Financial Services, Wilmington, Del. He remains bullish on growth in the economy through the end of 1992 as long as the basic fabric of the budget agreement is maintained.

The resurgence of small-cap growth stocks relative to the Standard & Poor's 500 Stock Index started in the fourth quarter of 1990. The S&P returned 31.5% for the year ended Sept. 30, compared with a 45.1% increase for the Russell 2000.

The top-performing equity portfolios in both the Pensions & Investments' Performance Evaluation Report and PIPER+ emphasized health care, technology and specialty retailing as key growth sectors in the economy.

Ron Worobel, portfolio manager of growth equities at MacKay-Shields Financial Corp., New York, has concentrated 65% to 70% of its growth portfolio investments in those sectors.

Mr. Worobel manages the $186 million New York Life Institutional Growth Fund for New York Life Insurance Co. in PIPER and MacKay-Shields' $79.5 million Mainstay Capital Appreciation fund in PIPER+. The New York Life fund was first for the quarter, with a 21.6% return; the MacKay-Shields fund was third in its universe, with 21.9% for the quarter.

"We've had a good batting average," said Mr. Nappi, who manages Philadelphia-based Provident Mutual Life Insurance Co.'s $17.5 million emerging small-cap growth stock fund, which returned 16.6% for the quarter, ranking second. "We have a decent mix of NASDAQ small-cap stocks." But he admits, "Third quarter 1990 was terrible. We stuck to our guns."

The fund holds shares in **American Software Inc.**, **ChemDesign Corp.**, **Geodynamics Corp.**, **Dress Barn Inc.**, **Greenery Rehabilitation Group** and **NovaCare Inc.**

"The best performers for a number of years will come from managers concentrating on growth stock rather than value," said Alan J. Dworsky, principal at Mt. Auburn Management, Boston.

Mt. Auburn's Concentration Fund finished second in PIPER+ with 23% for the quarter.

A specialty growth manager, Mt. Auburn has targeted health care, technology, specialty retailing and communications as the strongest growth sectors. The portfolio is limited to 10 medium-sized companies with capitalization of $500 million to $5 billion.

On Sept. 30, the portfolio held only nine stocks. The discipline of limiting the number of stocks forces him to make a choice, said Mr. Dworsky. The portfolio's largest position by appreciation is

See **PIPER** *on page 30*

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Top decile PIPER commingled fixed-income funds

3-month returns

	%
Lincoln Nat'l (Long)	10.3
Boatmen's Trust (Var. mat. F)	10.1
Keystone Invst. (Convert.)	9.2
Equitable Capital (Strategic)	8.7
Prudential (Long term)	8.6
NCNB (Long term)	8.2
Southwest Nat'l Bank of Pa. (F)	8.1
UBS Asset (CMB long term)	7.6
United Capital	7.5
United States Trust Co. N.Y.	7.4
Life of Virginia Aon	7.4
Metropolitan Life (S.A. 41)	7.2
Transamerica Invst.	7.2
Wellington Mgmt. (Interm.)	7.1
State Bank & Trust (D)	7.0
Team Bank (Long term)	7.0
Comerica	6.8
CIGNA Invst. (Active)	6.8
Manufacturers Affiliated	6.8
Manufacturers Nat'l Detroit (F)	6.8
General American (Priv. place. B)	6.8
Ameritrust Securities (Texas)	6.7
Bank of Delaware	6.7
Pacific Financial Asset	6.6
Bankers Trust (Gov't mtg. P)	6.6
First Fidelity (F)	6.5
Bankers Trust (Long interm.)	6.5
Provident Capital (F)	6.5
SLB G/C	**5.8**

1-year returns

	%
Keystone Invst. (Convert.)	33.8
Lincoln Nat'l (Long)	25.1
Boatmen's Trust (Var. mat. F)	25.0
Wellington Mgmt. (Emerg.)	23.1
Connecticut Mutual (Convert.)	21.2
Equitable Capital (Strategic)	21.1
Life of Virginia Aon	21.1
Prudential (Long term)	20.7
NCNB (Long term)	20.5
UBS Asset (CMB long term)	19.4
Second Nat'l Bank (F)	19.3
Wellington Mgmt. (Interm.)	19.2
State Bank & Trust (D)	19.0
Penn Mutual Life (S.A. C)	18.9
PW Trust (Conservative)	18.7
First Nat'l Bank of Amarillo	18.3
Pacific Financial	18.2
Metropolitan Life (S.A. 41)	18.1
First Variable Life (H.Q.)	18.1
Northern Trust	18.1
United States Trust Co. N.Y.	18.0
CIGNA Invst. (Active)	18.0
Aetna Life	17.9
John Hancock Mutual (1D)	17.7
Southwest Nat'l Bank of Pa. (F)	17.6
Provident Capital (F)	17.6
Colorado Nat'l Bank	17.3
JP Morgan Invst. (Tactical dur.)	17.2
SLB G/C	**15.9**

5-year returns

	%
Wellington Mgmt. (Interm.)	12.6
General American (Priv. place. B)	11.2
Transamerica Invst.	11.2
Meridian	11.1
Aetna Life	10.7
Bankers Trust (Gov't mtg. P)	10.7
Pacific Financial	10.7
First Nat'l Bank of Amarillo	10.7
J.P. Morgan Invst.	10.7
Beverly Trust	10.5
NCNB (Mtg. backed)	10.5
Harris Trust	10.4
The Principal	10.4
First Nat'l Bank of Maryland	10.4
Equitable Capital (Strategic)	10.2
Sanwa Bank Calif.	10.2
Boatmen's Trust (Var. mat. F)	10.2
IAA Trust	10.2
Marinvest	10.1
Nat'l Bank of Detroit (F)	10.1
First Kentucky Trust	10.0
General American (Con. mtg.)	10.0
Prudential (Privest)	10.0
UBS Asset (CMB sec. M)	10.0
Wachovia Invst.	10.0
SLB G/C	**9.1**

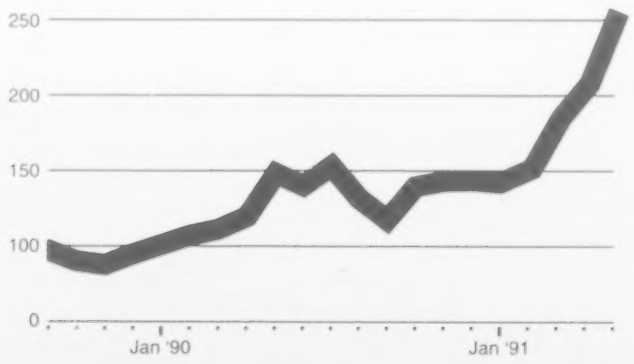
10-year returns

	%
Transamerica Invst.	17.5
Boatmen's Trust (Var. mat. F)	17.2
United Capital Mgmt.	17.0
Meridian	16.7
IAA Trust	16.3
Life of Virginia Aon	16.1
Pacific Financial	15.9
ASB Capital Mgmt.	15.8
Society Nat'l Bank	15.7
First Kentucky Trust	15.5
Colorado Nat'l Trust	15.5
C&S Sovran Capital (Inst.)	15.5
John Hancock Mutual (1D)	15.5
Equitable Capital (Strategic)	15.4
Prudential (Privest)	15.4
CIGNA Invst. (Active)	15.4
AmSouth Bank	15.4
SLB G/C	**14.2**

Top decile PIPER commingled equity funds

3-month returns

	%
New York Life (Growth)	21.6
Provident Mutual (Agg.)	16.6



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Equitable Capital (S.A. 4)	16.3
First of America (Sm. cap. val. E)	16.3
Princeton Bank	13.4
First Wisconsin Asset (Core gro.)	12.9
Shearson Lehman (Flex. gro. E)	12.9
Penn Mutual Life (S.A. D)	12.7
Norwest Bank (Growth)	12.5
The New England (Cap. growth)	12.2
Merchants Nat'l Bank (2)	11.9
Southeast Bank	11.9
State Street Asset (Matrix syn.)	11.7
Lincoln Nat'l (Select)	10.8
Wilmington Trust (Growth)	10.7
Penn Mutual Life (S.A. A)	10.7
Mark Twain Trust	10.6
Chancellor Capital (Growth)	10.5
Chancellor Capital (Sel. gro.)	10.5
Investment Trust	10.4
Meridian	10.4
Pacific Financial (Cap. appre.)	9.8
Equitable Capital (S.A. 1)	9.8
U.S. Nat'l Bank of Galveston	9.7
Norwest Bank (Lg. co. gro.)	9.5
State Bank & Trust	9.5
Trusco Capital Mgmt. (Suntrust)	9.4
Capital Trust (I)	9.4
Union Capital (Cap. growth)	9.4
S&P 500	**5.4**

1-year returns

	%
Provident Mutual (Agg.)	72.5
Merus Capital (Sp. growth)	59.7
U.S. Nat'l Oregon/Qualivest	58.5
Second Nat'l (Growth)	58.5
New York Life (Growth)	57.9
Investment Trust	56.3
Chancellor Capital (Growth)	55.4
Equitable Capital (S.A. 4)	54.5
Norwest Bank (Lg. co. gro.)	53.2
Chancellor Capital (Sel. gro.)	52.5
Shearson Lehman (Flex. gro. E)	51.3
Trusco Capital Mgmt. (Suntrust)	51.1
Union Central Life	50.0
Chancellor Capital (Multifactor)	49.9
State Street Asset (Matrix syn.)	49.8
Fifth Third Bank (Mid. cap.)	49.9
Sun Bank (Income)	48.8
Pacific Financial (Cap. appre.)	48.1
Norwest Bank (Growth)	48.0
Pacific Financial (Income)	47.5
Pacific Financial (Divers. low p/e)	46.6
First Wisconsin Asset (Core gro.)	46.4
Travelers (Sm. cap. index F)	46.3
Bankers Trust (Russell 2000)	46.3
U.S. Nat'l Bank of Galveston	45.8
First of America (Sm. cap. val. E)	45.6
Wellington Trust (Struc. sm.)	45.2
Union Nat'l/Arkansas (Low p/e)	45.1
The New England (Cap. gro.)	44.8
S&P 500	**31.2**

5-year returns

	%
Chancellor Capital (Sel. gro.)	23.0
IDS Trust (Core growth)	21.3
Shearson Lehman (Flex. gro. E.)	21.3
Chancellor Capital (Growth)	20.4
Lincoln Nat'l (Select)	20.1
State Street Asset (Matrix syn.)	19.4
The Phoenix (Growth)	19.4
Pacific Financial (Income)	19.0
Sun Bank	18.9
Equitable Capital (S.A. 4)	18.4
Meridian	17.9
John Hancock Mutual (Divers.)	17.9
Pacific Financial (Cap. appre.)	17.8
First Nat'l Bank of Amarillo	17.7
Trusco Capital Mgmt. (Suntrust)	17.7
First Illinois Bank (Corp.)	17.5
Second Nat'l Bank (Growth)	17.4
Summit Trust (F)	17.4
U.S. Nat'l Oregon/Qualivest	17.3
NCNB (Growth)	17.3
U.S. Nat'l Bank of Galveston	17.2
Chancellor Capital (Index plus)	17.1
Capital Trust (I)	17.1
Aetna Capital (S.A. 2)	17.0
First Illinois Bank (Personal F)	17.0
Mark Twain Trust	17.0
First Wisconsin Asset (Core gro.)	16.6
S&P 500	**14.7**

10-year returns

	%
Sun Bank	25.3
Pacific Financial (Cap. appre.)	23.2
The New England (Cap. gro.)	20.5
First Nat'l Bank of Amarillo	20.4
Manufacturers Nat'l Bank Detroit	20.3
U.S. Nat'l Bank of Galveston	20.0
Chancellor Capital (Growth)	19.8
Provident Mutual (Value S.A. 1)	19.7
Connecticut Mutual Life	19.4
First NH Invst. (First value)	19.3
Merus Capital (Income)	19.3
U.S. Nat'l Oregon/Qualivest	19.1
Markston Invst. (Long term gro.)	19.1
Nationwide Life	19.1
Pacific Financial (Divers. low p/e)	19.0
John Hancock Mutual (Divers.)	19.0
Manufacturers Affiliated (Growth)	19.0
Merus Capital (Inc. & gro. E)	19.0
Wesbanco Bank Wheeling (B)	18.9
S&P 500	**17.5**

Top decile PIPER commingled special equity funds

3-month returns

	%
Chancellor Capital (Health)	21.8
Trust Co./West (Sm. cap. gro.)	21.5
Norwest Bank (Sm. co. gro.)	20.6
Princeton Bank (Value emerg.)	19.9
Meridian (Quest)	19.8

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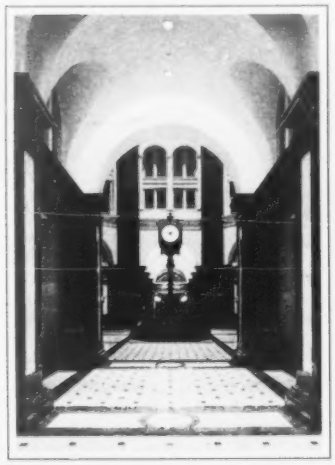

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Equitable Capital (Growth)	19.7
Bankers Trust (Cap. appre.)	17.5
Russell 2000	8.2
S&P 500	5.4

1-year

	%
Chancellor Capital (Health)	112.1
Princeton Bank (Value emerg.)	95.7
Equitable Capital (Growth)	89.0
Norwest Bank (Sm. co. gro.)	79.1
Meridian (Quest)	78.6
Manufacturers Detroit (Sm. cap.)	77.7
First Wisconsin Asset (Sm. cap.)	76.9
Russell 2000	45.1
S&P 500	31.2

5-year returns

	%
Chancellor Capital (Health)	23.9
Norwest Bank (Sm. co. gro.)	22.1
Meridian (Quest)	21.6
Equitable Capital (Growth)	21.5
Putnam Cos. (Growth)	20.2
Connecticut Nat'l Bank	20.0
S&P 500	14.7
Russell 2000	8.2

10-year returns

	%
Norwest Bank (Sm. co. gro.)	21.5
Connecticut Nat'l Bank	21.0
First Wisconsin (Sm. cap. gro.)	20.3
S&P 500	17.5
Russell 2000	12.9

Top half PIPER commingled international funds

3-month returns

	%
Global Fixed Income (Bond)	12.0
Ameritrust Texas (Bond)	11.2
CL Capital (Eq.)	10.9
Travelers Corp. (Bond index F)	10.5
Global Fixed Income (Glo. bond)	9.7
IAA Trust	9.5
J.P. Morgan Invst. (Eq.)	9.3
Associated Bank (P/PS Worldwide)	9.3
Trust Co. of the West (Global)	9.2
Wells Fargo Nikko (EAFE)	8.9
UBS Asset (CMB EAFE)	8.9
Bankers Trust (EAFE)	8.8
Travelers Corp. (Index)	8.8
FTA Europe & Pacific	8.8
State Street Asset (Index)	8.7
MSCI EAFE	8.7
The Principal (Eq.)	8.5
Harris Trust (Eq.)	8.4
Provident Capital (Low p/e)	8.2
Connecticut Mutual (Overseas)	8.1
Aetna Capital (Eq. S.A. 137)	7.9
Citibank Invst. (Eq.)	7.6
United States Trust Co. N.Y. (Eq.)	7.5
FTA World	7.5
MSCI World	7.2

1-year returns

	%
Trust Co. of the West (Global)	31.6
CL Capital (Eq.)	29.7
FTA World	26.7
MSCI World	25.3
Connecticut Mutual (Overseas)	24.7
CIGNA Int'l Invst. (Act. mgd.)	24.4
Wellington Mgmt. (Pacific Basin)	23.5
FTA Europe & Pacific	23.4
Travelers Corp. (Index)	22.8
UBS Asset (CMB EAFE)	22.7
Wells Fargo Nikko (EAFE)	22.6
Bankers Trust (EAFE)	22.5
MSCI EAFE	22.3
Provident Capital (Low p/e)	22.1
State Street Asset (Index)	22.1
The Principal (Eq.)	21.8
Boatmen's Trust (Eq.)	21.5
J.P. Morgan Invst. (Eq.)	21.4
Harris Trust (Eq.)	20.2
United States Trust Co. N.Y. (Eq.)	20.1
Citibank Invst. (Eq.)	18.9
Putnam Cos. (Eq.)	18.5
NCNB (Eq.)	17.7
Aetna Capital (Eq. S.A. 137)	17.2
Wellington Mgmt. (Eq.)	17.2

5-year returns

	%
CL Capital (Eq.)	17.3
United States Trust Co. N.Y. (Eq.)	17.2
CIGNA Int'l Invst. (Act. mgd.)	16.0
Global Fixed Income (Glo. bond)	15.8
Provident Capital (Low p/e)	15.7
J.P. Morgan Invst. (Bond)	12.7
Global Fixed Income (Bond)	12.2
Wellington Mgmt. (Pacific Basin)	12.1
Putnam Cos. (Eq.)	12.1
Citibank Invst. (Bond)	11.7
Bankers Trust (Eq.)	11.6
FTA World	11.3
NCNB (Eq.)	11.2
MSCI World	11.0
Wellington Mgmt. (Emerg.)	10.5
FTA Europe & Pacific	9.7
MSCI EAFE	9.4

10-year returns

	%
Putnam Cos. (Eq.)	19.6
MSCI EAFE	19.6
State Street Asset (Index)	19.5
FTA Europe & Pacific	19.4
Bankers Trust (Eq.)	19.2
IDS Trust	19.0
MSCI World	17.8

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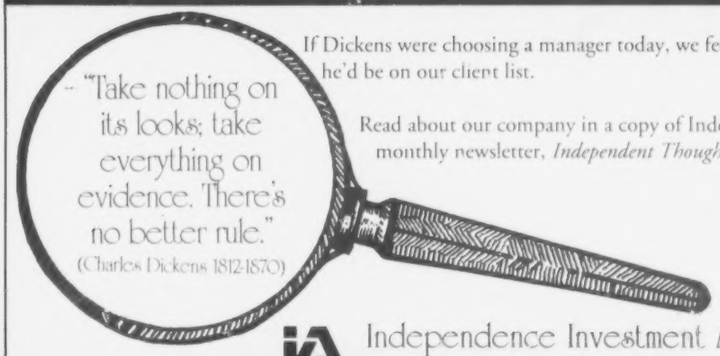

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Wells Fargo Nikko (EAFE)	17.6
Boatmen's Trust	17.6
FTA World	**16.3**

Top decile PIPER + fixed-income funds

3-month returns

	%
Lara Luchsinger & Dietze (Trea.)	12.0
Qualivest Capital	10.0
Income Res. (Long dur.)	9.7
Hoisington Invst.	8.8
Equitable Capital (5)	8.7
Peters, Gamm, West & Vincent	8.7
Leshner Financial (Mst./treas.)	8.5
Bridgewater Asset (Act. dur.)	8.2
Criterion Invst. (Long)	8.2
Brandywine Asset (Opt. act.)	8.1
Weiss, Peck & Greer (Short dur.)	8.1
Denver Invst. (Long)	8.1
Bradford & Marzec (Long dur.)	8.0
STW Fixed Income (Long)	7.9
Seaboard Invst.	7.6
Bell Capital (Mgd.)	7.5
Investment Advisers (Act. dur.)	7.4
Security Capital (Enhanc. long)	7.4
Investment Advisers (20 ltd. dur.)	7.3
Trevor Stewart Burton & Jacobsen	7.3
McKee Invst.	7.2
Criterion Invst.	7.1
Smith Affiliated	7.1
Houlihan Lokey Howard (Q. I)	7.1
Brinson Partners (U.S.)	6.9
Dewey Square (Act.)	6.9
SLB G/C	**5.8**

1-year returns

	%
Bell Capital (Mgd.)	34.8
Lara Luchsinger & Dietze (Treas.)	31.4
Loomis, Sayles	25.5
Income Res. (Long dur.)	25.3
Scheetz, Smith & Co.	23.4
Peters Gamm West & Vincent	22.9
STW Fixed Income (Long)	22.0
Criterion Invst. (Long)	21.9
Bradford & Marzec (Long dur.)	21.4
Denver Invst. (Long)	21.2
Equitable Capital (5)	21.1
Kemper Asset (Plus)	20.8
Houlihan Lokey Howard (Q. I)	20.4
Jamison Eaton & Wood (Act. dur.)	20.3
McKee Invst.	20.2
Seaboard Invst.	19.9
Durkee Capital (Act. quant.)	19.9
Investment Advisers (Act. dur.)	19.7
Bradford & Marzec	19.7
Bridgewater Asset (Act. dur.)	19.6
Leshner Financial (Mst./treas.)	19.4
Bartlett & Co. (Act. value)	19.4
Equitycapital (En. long)	19.2
Investment Advisors	19.0
Loomis, Sayles (Invst. grade)	19.0
Qualivest Capital	19.0
SLB G/C	**15.9**

5-year returns

	%
Seaboard Invst.	16.5
Bell Capital (Mgd.)	14.1
Fox Asset	12.8
Hoisington Invst.	11.8
Bartlett & Co. (Act. value)	11.5
First Pacific (Interm.)	11.4
U.S. Trust of California	11.3
Meridian Invst.	11.1
McKee Invst.	11.1
Durkee Capital (Act. quant.)	11.1
Jamison Eaton & Wood (Act. dur.)	11.0
Washington Square	10.9
Tom Johnson Invst.	10.9
Philadelphia Invst.	10.8
Ferguson & Wellman (Int. rate)	10.7
Analytic Invst. (Plus)	10.7
Jamison Eaton & Wood	10.7
Pacific Invst. (Total return)	10.7
STW Fixed Income (Long)	10.6
Bridgewater Asset (Act. dur.)	10.5
SLB G/C	**9.1**

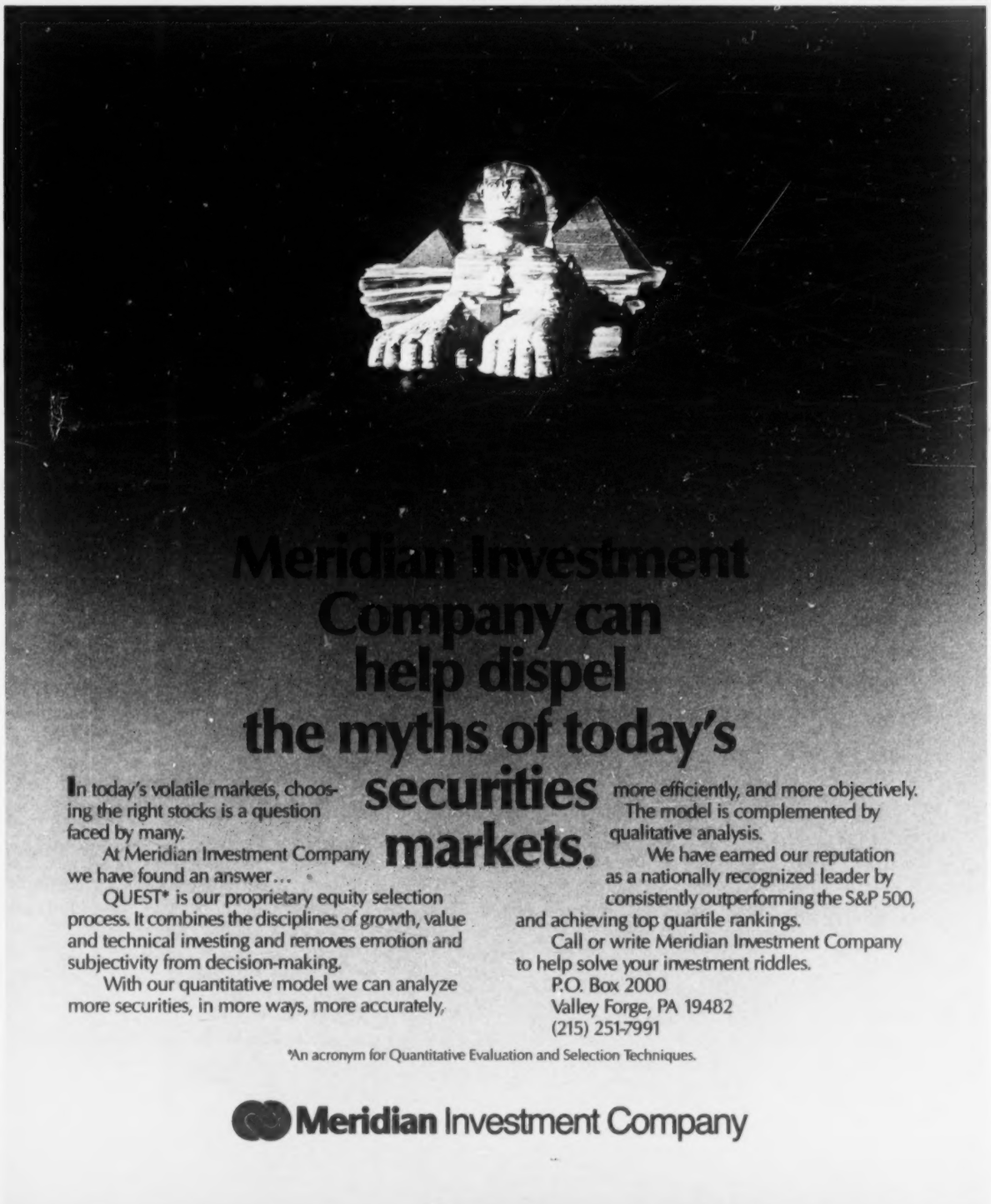
10-year returns

	%
Bridgewater Asset (Act. dur.)	20.1
STW Fixed Income (Long)	18.0
Patterson Capital (Interm.)	17.1
Smith Affiliated	17.1
Meridian Invst.	16.7
Denver Invst. (Long)	16.7
Standish, Ayer & Wood (Act.)	16.5
Loomis, Sayles	16.2
Kemper Asset (Plus)	16.1
Pacific Invst. (Total return)	16.1
Ferguson & Wellman (Int. rate)	16.0
Lincoln Capital	16.0
Western Asset (Act.)	15.8
Loomis, Sayles (Invst. grade)	15.8
SLB G/C	**14.2**

Top decile PIPER + equity funds

3-month returns

	%
Duncan-Hurst (Sm. cap. gro.)	24.7
Mt. Auburn Mgmt.	23.0
Mackay-Shields (Gro.)	21.9
Insight Capital (Sm. cap.)	21.7
Trust Co./West (Sm. cap. gro.)	21.5
Pacific Century (Sm. cap. gro.)	21.5
Peregrine Capital (Sm. cap.)	20.8
Beekman Capital (Growth)	20.8
Cheswick Invst.	20.7
Chancellor (Sm. cap. gro.)	19.9
Equitable Capital (Sp. gro. UP3)	19.7
Provident Invst. (Stellar)	19.0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Wall Street Assoc.(Sm. cap. gro.)	18.6
Lehman Ark (Sp. sit.)	17.3
Nicholas-Applegate (Em. gro.)	17.0
Investment Advisers (Sm. cap.)	16.9
Jundt Assoc. (Em. gro.)	16.9
Geo Capital (Sm. cap.)	16.7
Equitable Capital (Gro. 4)	16.3
First of America Invst. (Sm. cap.)	16.3
Target Invst. (Sm. cap./agg. gro.)	16.3
Jundt Assoc. (Core gro.)	16.2
Investors Res. (20th Cent. Gro.)	15.4
John McStay Invst. (Sm. cap.)	15.3
Capital Growth	15.3
Delta Financial (Gro.)	14.8
Essex Invst. (Gro.)	14.6
Denver Invst. (Medium)	14.6
INVESCO Trust (Defensive)	14.5
Fred Alger Mgmt.	14.5
Scudder Stevens Clark (Sm. co.)	14.4
Ardsley Partners (II)	14.3
INVESCO Trust	14.2
Pilgrim, Baxter, Greig (Sm. cap.)	14.0
Campbell Advisors (Growth)	13.8
Friess Assoc. (Brandywine)	13.6
IDS Advisory (Gro. spec.)	13.5
Ardsley Partners (I)	13.3
Nicholas-Applegate (Growth)	13.3
Provident Invst.	13.3
Turner Invst.	13.3
JMC Capital	13.1
Caldwell & Orkin	13.0
Wilke/Thompson (Sm. cap. gro.)	12.9
Fred Alger Mgmt. (Sm. cap.)	12.7
S&P 500	**5.4**

1-year returns

	%
Chancellor (Sm. cap. gro.)	107.1
Duncan-Hurst (Sm. cap. gro.)	104.4
Mt. Auburn Mgmt.	97.5
Beekman Capital (Gro.)	94.0
Equitable Capital (Sp. gro. UP3)	89.0
Insight Capital (Sm. cap.)	88.8
Target Invst. (Sm. cap./agg. gro.)	86.8
Geo Capital (Sm. cap.)	78.9
Peregrine Capital (Sm. cap.)	77.9
Pacific Century (Sm. cap.)	77.5
Cheswick Invst.	74.7
Granahan Invst. (Explorer II)	73.8
First Pacific Advisors (Capital)	72.9
Standish, Ayer & Wood (Sm. cap.)	72.3
Ardsley Partners (II)	72.0
Scudder Stevens Clark (Sm. co.)	71.6
Wilke/Thompson (Sm cap. gro.)	69.7
Jundt Assoc. (Em. gro.)	68.9
Investment Advisers (Sm. cap.)	68.3
Provident Invst. (Stellar)	67.9
Nicholas-Applegate (Em. gro.)	66.6
Capital Growth Mgmt.	66.6
Ardsley Partners (I)	65.4
Denver Invst. (Medium)	65.0
Mackay-Shields (Growth)	63.9
McCowan Assoc. (Special)	62.1
Value Line (Sm. cap.)	62.0
Qualivest Capital (Agg.)	60.6
Putnam Cos. (Sm. cap.)	60.2
Wilshire Asset (Sm. co. gro.)	59.8
Brown Capital (Rel. value)	59.8
Fred Alger Mgmt.	59.6
Provident Invst.	59.6
Hellman, Jordan Mgmt.	59.3
T. Rowe Price (Em. gro.)	59.2
Eagle Asset (Sm. cap.)	58.9
Brandywine (Low p/e-sm. cap.)	58.6
Cadence Capital (Sm. cap.)	58.5
Fred Alger Mgmt. (Sm. cap.)	58.2
IDS Advisory (Gro. spec.)	58.2
Moran Asset Mgmt.	58.1
John McStay Invst. (Sm. cap.)	57.9
Dreman Value (Sm. cap./low p/e)	57.8
Wilke/Thompson (Growth)	57.4
Putnam Cos. (Spec. gro.)	57.4
S&P 500	**31.2**

5-year returns

	%
Mt. Auburn Mgmt.	31.7
Tiger Mgmt.	30.2
Ashland Mgmt.	29.3
Duncan-Hurst (Sm. cap. gro.)	26.8
Jundt Assoc. (Em. gro.)	26.5
Provident Invst. (Stellar)	26.0
Cheswick Invst.	26.0
Cohen, Davis & Marks	25.6
Insight Capital (Sm. cap.)	25.1
Pacific Century (Sm. cap. gro.)	24.6
Chancellor (Sm. cap. gro.)	24.1
Hatteras Capital	23.6
Moran Asset Mgmt.	23.1
Peregrine Capital (Sm. cap.)	22.6
Turner Invst.	22.5
Quantitative Asset (En. index)	22.5
First Pacific (Dallas)	22.5
Beekman Capital (Growth)	22.4
Friess Assoc.	21.8

Investment Advisers (Sm. cap.)	21.7
Cowen Asset (Sm. cap.)	21.4
Fiduciary Mgmt. of Milwaukee	21.3
Jundt Assoc. (Core gro.)	21.0
Hellman, Jordan Mgmt.	20.9
Equitable Capital (Sp. gro. UP3)	20.8
Lehman Ark Mgmt. (Sp. sit.)	20.8
Provident Invst.	20.8
Hutson Mgmt. (Growth)	20.7
J.M. Hartwell	20.5
Dundee Partners	20.4
AIG Global Investors (U.S.)	20.4
Dawson Samberg (Gro. Pequot)	20.3
Capital Growth Mgmt.	20.3
Lincoln Capital	20.2
Hellman, Jordan (Acct. 25)	20.2
R.D. Hill & Assoc.	20.2
Mackay-Shields (Growth)	20.0
Putnam Cos. (Sp. gro.)	19.9
S&P 500	**14.7**

10-year returns

	%
Tiger Mgmt.	38.6

Pacific Century (Sm. cap. gro.)	33.2
Nicholas-Applegate (Em. gro.)	27.4
Ashland Mgmt.	26.9
Quantitative Asset (En. index)	25.1
Severn Assoc.	25.0
C.H. Brown (Computer dir.)	24.8
Capital Growth Mgmt.	24.4
Cadence Capital (Lg. cap.)	23.3
Balch Hardy & Scheinman	23.2
Roger Engemann & Assoc.	23.1
Lehman Ark Mgmt. (Spec. sit.)	23.1
Roxbury Capital	23.1
Caldwell & Orkin	22.9
Investment Advisers (Sm. cap.)	22.9
Investment Counselors	22.5
Columbus Circle Invst.	22.5
Neuberger and Berman	22.4
Tom Johnson Invst.	22.3
Fox Asset Mgmt.	22.0
Peregrine Capital (Sm. cap.)	21.7
Investors Res. (20th Cent. Sel.)	21.7
Hellman, Jordan Mgmt.	21.6
Wilshire Asset (Sm. co. value)	21.6
Fiduciary Mgmt. of Milwaukee	21.6
S&P 500	**17.5**

Top decile PIPER + special equity funds

3-month returns

	%
Amerindo U.S. (Em. gro. tech.)	27.0
Essex Invst. (Em. gro.)	15.3
Nicholas-Applegate (Hedge)	14.3
Weiss, Peck & Greer (Dyn. gro.)	14.1
Nicholas-Applegate (Convert.)	11.4
Equitable Capital (Convert. 34)	11.0
Russell 2000	**8.2**
S&P 500	**5.4**

1-year returns

	%
Amerindo U.S. (Em. gro. tech.)	81.3
Equitable Capital (Convert. 34)	65.3
Brinson Partners (Interm. cap.)	54.2
Brinson Partners (Post venture)	53.4
Essex Invst. (Em. gro.)	52.2
MPT Assoc. (Agg. gro.)	46.7
Russell 2000	**45.1**
S&P 500	**31.2**

5-year returns

	%
Feshbach Brothers (Southgate)	41.5
Guild Invst.	30.9
Nicholas-Applegate (Hedge)	29.0
Amerindo U.S. (Em. gro. tech.)	28.2
NFJ Invst. (Select)	22.2
S&P 500	**14.7**
Russell 2000	**8.2**

10-year returns

	%
Guild Invst.	35.8
Amerindo U.S. (Em. gro. tech.)	28.2
Cramer Rosenthal McGlynn	20.6
S&P 500	**17.5**
Russell 2000	**12.9**

Profiles of the 200 largest pension funds will appear in the Jan. 20 issue of *Pensions & Investments*.

WHOSE VARIABLE ANNUITY FUND OUTCLASSES EVERYTHING IN ITS CLASS?

Top half PIPER + global equity funds

3-month returns

	%
Van Eck Assoc. (Non-prec. met.)	14.5
Edinburgh Wilmington	10.8
WorldInvest	10.0
Marvin & Palmer Assoc.	9.7
Freedom Capital	9.3
Warburg Invst. (SL3)	9.3
Trust Co. of the West	9.2
PanAgora Asset (Tact. country)	8.7
Van Eck Assoc. (World trends)	8.6
Martin Currie (A)	7.8
Capital Guardian (New Pers. F)	7.8
Henderson Admin.	7.6
GIM Global Advisors	7.6
First Interstate Bank of California	7.5
FTA World	**7.5**
Stewart, Ivory (RCB/Stewart)	7.3
J.P. Morgan Invst.	7.3
Lombard Odier Int'l	7.2
Templeton Invst.	7.2
MSCI World	**7.2**
AIG Global Investors	7.1
Batterymarch Financial	6.6
G.T. Capital	6.5

1-year returns

	%
Guild Invst.	36.9
Marvin Palmer Assoc.	36.4
Trust Co./West (TCW Global)	31.1
Van Eck Assoc. (Non-prec. met.)	30.4
Stewart, Ivory (RCB/Stewart)	30.3
Martin Currie (A)	29.7
Thompson Co. (Alpha N A)	28.0
Brinson Partners	27.8
FTA World	**26.7**
AIG Global Investors	25.9
WorldInvest	25.7
MSCI World	**25.3**
Capital Guardian (New Pers. F)	23.9
Putnam Cos.	23.8
J.P. Morgan Invst.	23.8
Ivory & Sime Int'l (3)	23.7
PanAgora Asset (Tact. country)	22.9
Clemente Capital (CL Global)	22.6
Batterymarch Financial	22.4
Scudder Stevens & Clark	22.3
G.T. Capital	22.2
Edinburgh Wilmington	22.1

5-year returns

	%
Thompson Co. (Alpha N A)	27.4
Martin Currie (A)	18.0
Burgess Capital	17.0
Brinson Partners	16.0
AIG Global Investors	15.7
Ivory & Sime Int'l (3)	14.6
Stewart, Ivory (RCB/Stewart)	14.6
Capital Guardian (New Pers. F)	14.1
Mercator Asset	14.1
Scudder Stevens & Clark	13.2
Fiduciary Trust	13.1
Guild Invst.	12.9
Batterymarch Financial	12.8
J.P. Morgan Invst.	12.3
Templeton Invst.	12.1
Putnam Cos.	11.7
FTA World	**11.3**
MSCI World	**11.0**

10-year returns

	%
Burgess Capital	22.6
WorldInvest	21.7
Putnam Cos.	19.9
Templeton Invst.	19.6
Brinson Partners	19.6
J.P. Morgan Invst.	18.2
MSCI World	**17.8**
FTA World	**16.3**

Top half PIPER + international equity funds

3-month returns

	%
Ladas & Hulings (Value)	16.8
Lazard Freres Asset	11.6
WorldInvest (IPEF)	11.0
Fidelity Mgmt.	10.9
Grantham Mayo v. Otterloo (Act.)	10.6
Freedom Capital	10.6
Grantham Mayo v. Otterloo (Core)	10.3
Cseh Int'l (Low p/e)	10.2
Axe Core Investors (ADR)	10.2
Waddell & Reed (Growth)	9.8
Capital Guardian	9.7
Henderson Admin. (EAFE)	9.5
Pictet Int'l (Pos. val. uncon.)	9.4
J.P. Morgan Invst.	9.3
Morgan Stanley Asset	9.2
Hill Samuel Invst.	9.1
Warburg Invst. (A/C 17)	9.0
Prudential Divers. Invst.	9.0
Wells Fargo Invst.	8.9
Bankers Trust Invst. (EAFE)	8.8
FTA Europe & Pacific	**8.8**
Arnhold & S. Bleichroeder (Bot. up)	8.7
MSCI EAFE	**8.7**
J.P. Morgan Invst.	8.6
Boston Int'l (Prime)	8.5
Wright Investor's	8.5
The Principal	8.5
Rowe Price Fleming	8.4
Harris Invst.	8.4
Parametric Portfolio	8.4
Rowe Price Fleming (TRP)	8.3
Clay Finlay (EAFE)	8.3
GIM Global Advisors	8.2
Provident Capital (Low p/e)	8.2
Templeton Invst.	8.2
Batterymarch Financial	8.1
Brinson Partners	8.0
Pictet Int'l (Pos. val. con.)	8.0
Travelers Cos. (Sm. cap.)	7.9
Boston Int'l (GDP wtd. EAFE)	7.9
Boston Int'l (Prime value)	7.8
Martin Currie (European)	7.8
Citibank Invst.	7.6
AIG Global Investors (EAFE)	7.6
Marvin & Palmer Assoc.	7.5
Scudder Stevens & Clark (E)	7.4
Gulfstream Global	7.4
Boston Int'l (GDP based Prime V)	7.4
CIGNA Int'l	7.4
Baring Int'l (Act./passive)	7.4

1-year returns

	%
Ladas & Hulings (Value)	49.9
Murray Johnstone	33.0
Martin Currie (B)	26.8
Crown Financial	26.7
Vontobel USA (Europacific)	25.9
WorldInvest (IPEF)	25.5
Axe Core Invst. (ADR)	24.5
Kleinwort Benson Int'l	24.5
CIGNA Int'l	24.4
AIG Global Investors (EAFE)	23.8
FTA Europe & Pacific	**23.4**
Cseh Int'l (Low p/e)	23.3
Brinson Partners	23.1
Pictet Int'l (Pos. val. uncon.)	22.9
Wells Fargo Invst.	22.7
Capital Guardian	22.6
Baring Int'l (Act./passive)	22.5
Bankers Trust Invst. (EAFE)	22.4
Rowe Price Fleming	22.3
MSCI EAFE	**22.3**
Rowe Price Fleming (TRP)	22.2
Provident Capital (Low p/e)	22.1
Gulfstream Global	21.9
The Principal	21.8
Nikko Capital (EAFE active)	21.7
Prudential Divers. Invst.	21.7
G.T. Capital (EAFE)	21.6
Acadian Financial (Country sel.)	21.6
J.P. Morgan Invst.	21.4
Grantham Mayo v. Otterloo (Core)	20.9
Baillie Gifford (NCNB Texas)	20.8
Parametric Portfolio	20.8
Boston Int'l (Prime)	20.5
Baring Int'l (1 EAFE)	20.4
J.P. Morgan Invst.	20.4
Wright Investor's	20.2
Harris Invst.	20.1
Grantham Mayo v. Otterloo (Act.)	19.9
Putnam Cos.	19.9
Pictet Int'l (Pos. val. con.)	19.7
Marvin & Palmer Assoc.	19.6
Acadian Financial Res. (Risk con.)	19.3
Edinburgh Wilmington Int'l	19.1
Waddell & Reed Asset (Growth)	19.1
Citibank Invst.	18.9
Pictet Int'l (Avg. risk V)	18.8
Dillon, Read Int'l (EAFE)	18.2
Lazard Freres Asset	18.0
Scudder Stevens & Clark (E)	17.7
Wellington Trust	17.6

5-year returns

	%
Ladas & Hulings (Value)	22.4
Ivory & Sime Int'l (3)	20.1
Lazard Freres Asset	19.0
Morgan Stanley Asset	18.8

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Our EQUI-VEST* Aggressive Stock fund, for example, has recorded a total return of 59.50% since January—enough to make it the number one annuity performer in its class, according to Lipper Analytical Services, Inc., through the first nine months of 1991.

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*The Aggressive Stock Division is one of five investment options available through EQUI-VEST®, a deferred variable annuity. All rankings and data are for periods ended 9/30/91. According to Lipper Analytical Services Inc., the EQUI-VEST Aggressive Stock Division ranked #1 out of nine Small Company Growth variable annuity funds for the period indicated. For the one year, three year and five year periods, it ranked #1 out of 261, 206 and 95 variable annuity equity funds, respectively. The equity funds category is a broad category which includes funds with many different types of investment objectives and policies. These differences may affect relative performance and risk. According to Lipper, all funds are ranked on total return figures which are net of separate account-related fees; the Lipper survey is based on performance data which do not include the effect of sales charges. Total returns are historical and include change in unit value and reinvestment of investment income. Returns and principal will vary, and units may be worth more or less than their original value when redeemed. **The Aggressive Stock Division commenced operations on May 1, 1984. Average annual returns reflect all separate account charges, as well as the effect of the annual administrative charge and a maximum contingent deferred sales charge of 6%.

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Washington, DC 20036

Templeton Invst.	18.7
Boston Overseas (EAFE)	17.5
State Street Asset (Country sel.)	17.2
Edinburgh Wilmington Int'l	17.2
CIGNA Int'l	16.0
Cseh Int'l (Low p/e)	15.9
Provident Capital (Low p/e)	15.7
Batterymarch Financial	15.7
PCM Int'l	15.6
Grantham Mayo v. Otterloo (Core)	15.4
Hill Samuel/Invst. Adv.	15.0
Mercator Asset	14.5
RCB Int'l	14.3
Murray Johnstone Int'l	14.3
Intervest	14.2
Grantham Mayo v. Otterloo (Act.)	14.1
Rowe Price Fleming (TRP)	14.0
Brinson Partners	14.0
J.P. Morgan Invst.	13.4
Clay Finlay (EAFE)	13.3
Scudder Stevens & Clark (E)	13.3
AIG Global Investors (EAFE)	13.2
Capital Guardian	13.1
Kleinwort Benson Int'l	13.0
Rowe Price Fleming	12.9
Baillie Gifford (NCNB Texas)	12.8
G.T. Capital (EAFE)	12.8
Acadian Financial (Risk con.)	12.6
Touche Remnant Invst.	12.6
Putnam Cos.	12.5
FTA Europe & Pacific	**9.7**
MSCI EAFE	**9.4**

10-year returns

	%
Templeton Invst.	23.4
Grantham Mayo v. Otterloo (Act.)	23.2
Putnam Cos.	20.4
WorldInvest (IPEF)	20.1
Brinson Partners	19.9
Rowe Price Fleming (TRP)	19.8
Capital Guardian	19.8
Schroder Capital	19.6
MSCI EAFE	**19.6**
Baring Int'l (1 EAFE)	19.5
G.T. Capital (EAFE)	19.4
Bankers Trust Invst.	19.4
FTA Europe & Pacific	**19.4**

Some Plain Talk About Defined Contribution Plans

CANDOR

Candor is the cornerstone of effective communications. The straightforward, clear and honest exchange of information builds trust and confidence. Your 401(k) plan participation level will increase and plan diversification will broaden as employees gain greater understanding of their investment options. That, in turn, will help to assure them of a more comfortable retirement in future years.

PLAIN TALK Plan participants appreciate the convenience of direct, toll-free access to friendly, knowledgeable people to whom they can talk when the need arises. Participants want straight answers to their questions about risk and return which they can understand and trust. Technology should augment the effectiveness of telephone representatives–not replace them.

PLAIN SPEAKING There is no better way to promote understanding than direct, face-to-face meetings where specially trained professionals can explain in detail the risks that accompany the potential rewards of investment decisions. Meetings should help participants make long-term investment decisions, while explaining the benefits of participation.

PLAIN ENGLISH Hardest to achieve–but none-the-less necessary–is the provision of written materials containing essential information on plan features and investment risk, return, and cost–presented quietly, candidly and without hyperbole. Equally important is the need to design statements and enrollment kits for participant understanding first and system efficiency second.

Vanguard can help you deliver an effective communication program from literature to video to participant statements to meetings so that employees can make intelligent, informed decisions. We believe that when you focus on the fundamental issues–like candid communications–you will choose Vanguard for your 401(k) program.

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Top decile PIPER + balanced/TAA funds

3-month returns

	%
Essex Invst.	13.4
Caldwell & Orkin	12.8
Cheswick Invst.	12.5
Equitable Capital (Strategic)	12.3
Provident Invst.	12.1
Rittmann Capital	11.0
Turner Invst.	10.7
Fred Alger Mgmt.	10.5
Northern Capital (Asset alloc.)	10.3
Forstmann-Leff Assoc.	10.0
Denver Invst.	10.0
R.D. Hill & Assoc.	9.2
Brown Capital (Rel. value)	9.1
Strong/Corneliuson Capital	9.0
Potomac Asset	9.0
J&W Seligman	8.7
Harris Bretall Sullivan Smith (Gro.)	8.7
Stephenson & Co. (Value)	8.7
Baring America Asset	8.6
Galleon Capital	8.4
Roxbury Capital	8.4

1-year returns

	%
Quaker Capital	60.8
Chancellor (Stockshift 200)	57.3
Rittmann Capital	49.9
Essex Invst.	44.8
Chancellor (Stockshift 150)	44.3
Provident Invst.	43.8
Cheswick Invst.	43.2
Turner Invst. (Core)	40.1
Denver Invst.	39.3
Fred Alger Mgmt.	38.3
Caldwell & Orkin	38.2
Harris Bretall Sullivan Smith (Gro.)	38.0
Brown Capital (Rel. value)	38.0
Stephenson & Co. (Value)	37.6
Fayez Sarofim	35.7
Investment Counselors	33.9
McCowan Assoc.	33.4
J&W Seligman	32.9
Equitable Capital (Strategic)	32.8
Ashfield & Co.	32.8
Mellon Equity Assoc. (Quant)	32.3

5-year returns

	%
Chancellor (Stockshift 200)	23.2
Turner Invst.	18.8
Quaker Capital	18.6
Essex Invst.	18.6
Chancellor (Stockshift 150)	18.4
Provident Invst.	18.1
Seaboard Invst.	18.1
Oxford Capital	17.9
Investment Counselors	17.5
Mitchell Hutchins (Asset alloc.)	17.4
Fayez Sarofim	17.1
Cheswick Invst.	17.0
Bankers Trust (Act. TAA)	16.9
Quantilogic Asset (TAA)	16.9
Caldwell & Orkin	16.3
R.D. Hill & Assoc.	16.2
Lincoln Capital	16.0
Mellon Equity Assoc. (Quant.)	15.6
Avatar Assoc. (3-way TAA)	15.3

10-year returns

	%
Caldwell & Orkin	20.5
Davenport & Co. of Va.	20.0

Continued on page 30

2 reports take PBGC accounting to task

By Joel Chernoff

WASHINGTON — In January 1986, the Pension Benefit Guaranty Corp. stopped using its general ledger accounting systems while shopping for a new integrated financial management system.

For the next four years and three months, PBGC accountants labored with a manual, ad hoc system to track the agency's accounting transactions until a new system was adopted.

During this period, inconsistencies arose — including a discovery in 1989 by the PBGC that it had not accounted correctly for more than $150 million in trust fund assets. The PBGC adjusted its fiscal 1989 books to recognize a gain, but it took another year to rework its trust accounting.

This was just one of a number of serious flaws in PBGC internal financial controls discussed in two recent congressional reports — concerns that reflect on the agency's ability to meet its long-term obligation to pay benefits and to determine whether the premiums paid to the agency by employers are adequate, according to the General Accounting Office. The agency has a $2 billion-plus deficit that threatens to grow to more than $11 billion by 2000, according to agency estimates.

The PBGC's "long-standing weaknesses, its accumulated deficit and its possible future losses for underfunded ongoing pension plans led us and the Office of Management and Budget to include the corporation on our respective lists of 'high risk' agencies and programs," the GAO report said. The House Ways and Means Oversight Subcommittee, whose report was based on the GAO findings, agreed "an inoperative general ledger system and the absence of accounting procedures placed PBGC's assets at risk, jeopardized the credibility of its financial statements, and impaired management of the pension guarantee program."

The PBGC already has taken a number of steps to correct the problems, and hopes to have its financial statements in a position to be audited — for the first time in the agency's 17-year history — by the end of 1992.

The GAO is "encouraged by management's response to the weaknesses identified during our audit as well as the financial management reforms under way. However, the ultimate success of these reforms will depend on management's commitment to correcting these weaknesses."

James B. Lockhart III, the agency's executive director, admits the GAO has "a right to be a little cynical after 17 years." But with the hiring recently of the agency's first chief financial officer and other structural reforms being put in place, Mr. Lockhart hopes the agency will get the internal auditing problems behind it shortly.

Other key findings include:

- For more than two years, the PBGC could not keep track of unpaid premiums, interest and penalties because its computer system was not modified in time for the implementation of the variable-rate premium in 1988. In fact, the computer crashed for nearly two years, the reports said.

Premium data were warehoused from August 1988 through at least September 1990, according to the reports. Citing the agency's inspector general, the Ways and Means report said most unpaid variable-rate premiums for 1988 would have to be written off because the six-year statute of limitations will have expired by the time the PBGC has its new computer system up and running. The new system, earlier expected to be put in place in 1984, now is projected to be operative next year.

- Weaknesses in controls made it impossible for the GAO to evaluate the agency's reported $4.8 billion estimate of its liability for future benefit payments. Lack of documentation and missing participant data contributed to the problems.
- Premium payments sent to the agency's Washington headquarters instead of its lockbox in Georgia were not accounted for properly. What's more, the inspector general found seven uncashed checks from 1988 sitting in the agency two years later.

The Ways and Means panel recommended the GAO: conduct a study of the PBGC's premium-processing system; annually match information sent to the PBGC and the Internal Revenue Service; and monitor the PBGC efforts to correct its problems. ■

Continued from page 28

Provident Invst.	19.9
J.P. Morgan Invst. (TAA)	19.9
Investment Counselors	19.6
Mellon Capital (3-way TAA)	19.5
Chancellor (Assetshift 65)	19.4
Tom Johnson Invst.	19.3
Columbus Circle	19.3
Wells Fargo Invst. (3-way TAA)	19.2
Dean Invst.	19 1
Penteq (Stocks/cash)	18.6
Lincoln Capital	18.4

PIPER

Continued from page 17

in **U.S. Surgical Inc.**, whose value had more than doubled. **Telefono de Mexico**, a large-cap stock and a major international offering listed on the New York Stock Exchange four months ago, also is part of the Mt. Auburn portfolio.

The insurance company and bank commingled equity funds comprising the PIPER universe showed a median return of 5.6% for the quarter and 31.3% for the year. Those returns are just more than the S&P 500 return of 5.4% for the quarter and 31.2% for the year.

The median investment counselor in the PIPER+ equity universe returned 6.7% for the quarter; the median was 35% for the year.

Fixed-income returns for PIPER and PIPER+ managers mirrored the Shearson Lehman Brothers Government/Corporate Bond Index.

The Shearson index return for the quarter was 5.8% and for the year, 15.9%.

The median PIPER commingled fixed-income accounts returned 5.5% for the quarter and 15% for the year.

The median investment counselor in PIPER+ returned 5.7% for the quarter and 15.8% for the year.

The PIPER and PIPER+ reports are compiled by Rogers Casey & Associates, Darien, Conn. ■

PIPER+ global funds

Periods ended Sept. 30

		1 yr.	3 yr.	5 yr.	10 yr.
Highest return	14.5	36.9	22.6	27.4	22.6
Median	6.5	22.0	11.1	11.6	18.2
Lowest return	-0.9	2.7	2.3	5.9	11.0
FTA World	7.5	26.7	7.5	11.3	16.3

PIPER+ international funds

Periods ended Sept. 30

		1 yr.	3 yr.	5 yr.	10 yr.
Highest return	16.8	49.9	23.7	22.4	23.3
Median	7.4	17.6	9.6	12.5	19.4
Lowest return	-1.6	-2.0	1.5	2.6	16.3
FTA Europe Pacific	8.8	23.4	2.7	9.7	19.4

PIPER+ balanced/TAA funds

Periods ended Sept. 30

		1 yr.	3 yr.	5 yr.	10 yr.
Highest return	13.4	60.8	28.3	23.2	20.5
Median	5.8	24.1	13.6	12.4	16.0
Lowest return	-1.3	6.6	7.6	6.1	12.3

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Bonds

Continued from page 2

"Any money manager with some bond capability is asleep at the wheel if they are not going after these (GIC) assets," said Kathleen Callahan, vice president at Piper.

Ms. Callahan said Piper has gathered about $100 million in GIC assets during the past 12 months. Piper's GIC alternative portfolio has the price volatility of a two-year Treasury note and returns 150 basis points over a one-year Treasury note, she said.

Mark Hanley, vice president at RNC, said his firm recently launched a fixed-income strategy specifically designed to appeal as an alternative to GICs. RNC has attracted $100 million since July.

The RNC strategy eliminates insurance company default risk, said Mr. Hanley, because the plan sponsor owns the underlying securities in the portfolio. Credit risk is eliminated because RNC purchases only U.S. government and agency securities. The relatively short maturities of the securities (maximum of three years) combined with a large floating-rate security component ensures consistent returns while avoiding portfolio volatility, he said.

Mr. Hanley said the portfolio currently has a yield of 90 basis points over a three-year Treasury note and slightly higher than a five-year high-quality GIC.

Pension executives, meanwhile, are "taking a look at GIC alternatives and asking, 'Should I be at the mercy of the insurance industry,' " said Robert Hunkeler, assistant treasurer at Sandoz.

"I get at least one piece of mail every day from a bond or hybrid GIC manager or a short/intermediate-term manager," he said.

He said Sandoz probably will consider using synthetic GICs before active bonds. "We want to crawl before we walk." GICs comprise $218 million of the total $325 million Sandoz defined contribution plan assets.

"I'd say the approach I like and that we are following here is basically to make your portfolio better. The next stage would be to consider adding short/intermediate-term bonds; we haven't looked at it in great detail yet but absolutely it is a viable GIC alternative," he said.

Adding bonds to a GIC portfolio "means you are trading off a little volatility for a lot of security," he said. "And a lot of employers are seeing it that way."

Halliburton has embarked on a program to reduce its exposure to GICs in its $1.1 billion stable value fund. The fund currently is just under 50% invested in GICs, down from 100% just two years ago. The GICs have been replaced with high-quality, traditional fixed-income instruments (*Pensions & Investments*, Aug. 19).

Michael Stavar, assistant treasurer at BASF, said he already has added a small bond component to the company's $360 million GIC portfolio to enhance overall yields. BASF has total defined contribution assets of about $418 million.

"We are looking at synthetic GICs to improve the overall quality, and it is possible that if we feel interest rates are going nowhere or decline, you may be able to incorporate other fixed-income securities which are marked to market," said Mr. Stavar.

He said the GIC portion of BASF's assets has no more than 10% of its holdings in U.S. Treasury securities with a duration of about two years. The bonds have "paid off" as interest rates have dropped.

Mr. Stavar said before making a major commitment to active bond management in the GIC fund, a major education process would be necessary for plan participants. "I think you will see attempts made to educate people to move away from book value accounting and (into active bonds) to improve portfolio quality and the potential for higher returns."

Edward P. Rennie, vice president at Pacific Investment Management Co., Newport Beach, Calif., and former head of the Bell Atlantic Corp. pension plan, said he believes "money in GICs will decline in favor of non-GIC alternatives, particularly bonds."

PIMCO has two bond approaches it offers as an alternative to GICs; both contain low duration, high-quality securities marked to market.

Mr. Rennie said bond managers are going to provide stiff competition to the handful of GIC managers, and that competition will be good for plan participants.

"Participants will benefit from these non-book value products because of the returns they offer and where they can get quality and stability," he said. ■

Top-quality insurers attracting most business with lower bids

As concerns about insurance company credit quality mount, insurance carriers with higher credit ratings are attracting most of the guaranteed investment placements while offering lower-than-average bid quotes, according to a recent study.

Average rate spreads on typical GIC quotations on July 1 between the highest-rated (AAA) companies and lower-rated, single-A carriers ranged from 33 basis points for a one-year contract to 10 basis points on a four-year contract and eight basis points for a five-year maturity, according to a study by Wyatt Asset Services Inc., Portland, Ore.

Plan sponsors, meanwhile, increasingly are making placements only with the highest rated companies following several insurance company insolvencies and regulatory takeovers.

"Issuers with higher ratings (AAA and AA) offer lower-than-average bids with the expectation that plan sponsors will be willing to sacrifice yield for enhanced credit quality," said the Wyatt study of 49 major GIC issuers.

According to Wyatt, the AAA-rated companies, with few exceptions, have offered lower-than-average rates for the past four years. The amount by which these companies was below the universe average increased from two basis points in 1989 to 13 basis points in 1991, said Wyatt.

Insurance companies and banks that hold low credit ratings historically have offered higher-than-average yields on their contracts, the study said. Such companies must write new GIC business at lower profit margins, "possibly adding to an already weakened financial condition and potentially contributing to a carrier's future instability."

According to Wyatt, the average bid for AAA-rated companies on July 1 for a two-year $5 million compound interest bullet BIC was 6.87% vs. 7.42% for A-rated companies. On a five-year contract the average AAA bid was 8.49% vs. 8.57% for A-rated companies. ■

— *Fred Williams*

Emerging

Continued from page 3

donesia that have shot up to excessive levels in a short period, often have tumbled when bad economic news hits. Indonesia's market is down more than 40% this year following a series of economic hits, reported Peter Wall, senior markets analyst with the Emerging Markets Data Base, a unit of the Washington-based IFC.

Through much of the 1980s, Asian markets often enjoyed high economic growth and laissez faire government policies and typically were stellar performers. Recently, higher interest rates and slower — although continued — economic growth have tarnished that picture.

"In the past year, governments in the region have been trying to clamp down on overheated economies, so we've been seeing more tightening of monetary policy," said Wai Chin, assistant vice president, Scudder, Stevens & Clark, New York.

The effect: economic slowing. In Malaysia, real growth in gross domestic product should slow to about 8.5% this year from about 10% in 1990. Thailand's GDP should fall to about 8% from about 10%, and Indonesia's GDP should drop to about 5.5% from 7.4%, Ms. Chin said.

Meanwhile, Latin America has been shedding hyperinflation, debt crises and government controls and regulations. Chile and Mexico have led the way to economic liberalizations in the region, and experts say other countries, such as Argentina, are on the same path.

In response, stock markets have boomed. According to IFC data, since the end of 1990 Argentina's market has soared 293.5% in U.S. dollar terms, while Mexico's market climbed 79.2% and Chile's jumped 125.9%.

Emerging markets' riskiness, however, remains a problem, with different managers offering different solutions.

Most cite a need for a strong network of contacts and information providers in the local markets to keep up with developments. And because emerging markets aren't closely correlated to other markets or themselves, quite a few emerging market managers also like to diversify their portfolio widely to dampen volatility.

Douglas J. Dooley, vice president, J.P. Morgan Investment Management Inc., New York, says, among other things, his firm, which invests in 16 emerging markets, "considers a market's gain. If it's high relative to others available to us, we sell it. If it's low, we buy it."

Genesis Investment Management Ltd., London, uses a bottom-up stock picking approach and limits investments in any one market to 15% of a portfolio's net asset.. As Jonathan Point, a Genesis director, explained, not only do economic data tend to "come late in these markets" but also, because of "structural changes, there are also unequal opportunities among different companies in these markets."

He cited the example of a country that lowers its trade barriers on steel. While the move could expand steel imports and drive up competition — hurting local steel companies — it could benefit steel users, such as the construction industry.

Since its July 1989 inception, the net asset value of the Genesis Emerging Markets Fund has climbed 80%, compared with about a 4% drop in the MSCI World Index, Mr. Point said. ■

Neutral

Continued from page 2

tive position to be almost its own asset class," said Barbara McCann, assistant vice president and client services manager. "So when a portfolio has a short sale, it reflects the negative position and corresponding corporate activity related to them."

"The assets that are held in the portfolio are listed on the same accounting report as the long position," she said.

But that technological innovation does not preclude the greater involvement of the broker/dealer, an issue pension fund investment committees might find insurmountable, Mr. White said.

With short selling, the broker/dealer holds the proceeds from the short sale as collateral against the stock borrowed.

Also, because there is a simultaneous purchase of a stock during a market neutral transaction, the broker also might hold the security as collateral.

But many pension funds have rules against securities leaving or being held at any place other than with the master trustee, according to Mr. White.

"It's already a complex strategy," he said. "And then you say you are running assets out of the trustee. It will be a severe impediment."

The pension funds now using market neutral strategies have circumvented the issue by classifying broker/dealers as subcustodians.

"To facilitate it, we entered into a subcustodial agreement with a broker/dealer and the assets are custodied there," said Mr. Borneman. "They have the computer capability to maintain the records."

While such an arrangement is "different from normal, I wouldn't say it was abnormal," he said.

The length of time it takes to perform the due diligence for a market neutral investment because of the broker/dealer component is another hurdle to clear.

"It takes nine months of work to satisfy yourself that the legal and structural network will work," said Mr. White.

Another potential headache is the possibility for a conflict of interests, since many broker/dealers often perform short selling for their own accounts.

"The knowledge of third parties could aid them in improving their own position," said Mr. White.

Broker/dealers also do not have the strong indemnification that a plan sponsor has with a master trustee.

"What if a broker goes bankrupt?" said one market neutral investor who requested anonymity. "That never arises at a trustee bank because the assets are held in a segregated account, which is not the case at a brokerage firm."

Some brokers, according to Mr. White, have set up trusts so the pension fund assets will be secure.

"But that adds costs to the structure," he said.

"If you add up all the impediments, it means that the growth of market neutral is going to be pretty slow." ■

Trident

Continued from page 4

but didn't end up to benefit from his wrongful conduct is obviously telling. We lost the business. He intended to get it, and he didn't get it," said Mr. Cole.

Mr. Weiner wasn't available for comment. Attorneys with Scott Tepper of Garfield, Tepper, Ashworth & Epstein, Los Angeles, which represented Mr. Weiner, also couldn't be reached for comment.

In court papers filed in response to the lawsuit, Mr. Weiner denied any wrongdoing and denied "that plaintiffs were damaged in any amount whatsoever."

Mr. Weiner also denied there had been any extension of the consulting contract with Trident.

According to the lawsuit, Mr. Weiner obtained the Pacific Inland Bancorp. stock when he sold its predecessor organization, Pacific Inland Management, for $1.46 million in cash and stock in 1982 to Pacific Bancorp.

In the other lawsuit, Mr. Hansen seeks punitive damages from Trident Investments, Pacific Inland Bancorp., and current or former directors of Pacific Inland Bancorp., including Mr. Weiner.

In the lawsuit, Mr. Hansen claims he was given a three-year contract in January 1988 as CEO with a salary of $125,000 a year, a guaranteed yearly bonus of $25,000 for three years, stock options and a car.

Mr. Hansen claims he was arbitrarily terminated before the close of the three years after he complained to Robert Meyer, Pacific Inland board chairman, that Mr. Meyer was diverting assets from Trident to his other business interests to the detriment of Trident.

Mr. Hansen said he sent memos to Mr. Meyer that his use of private planes from Businessman's Air rather than taking commercial flights was resulting in the spending of "large, unjustified sums of money" for Trident.

In addition, Mr. Hansen said he sent a memo in June 1989 to Mr. Meyer charging a joint venture between Trident and Meyer Investment Properties was detrimental to Trident and should be renegotiated.

As a result of those memos, Mr. Hansen said he received a memo in August 1989 from Mr. Meyer saying he was dissatisfied with Mr. Hansen's performance. Mr. Hansen said he was terminated by Mr. Meyer in September 1989.

In his suit, Mr. Hansen has charged wrongful discharge in violation of public policy, fraud and deceit.

Trident and Pacific Inland denied wrongdoing and denied Mr. Hansen had a three-year contract as chief executive officer.

"You simply have a former officer of the company who was discharged for doing a lousy job, who has now decided that he has got some creative lawyers and they are going to sue for every claim known to man to leverage a settlement," said Mr. Cole, who also represents Trident and Pacific Inland in this case.

Louis Highman, representing Mr. Hansen, said, however, the case is much more than a simple breach of contract suit. "We are alleging torts," said Mr. Highman.

No trial date has yet been set. ■

MONY

Continued from page 1

date their MONY contracts; or stick with MONY.

(MONY recently disclosed third-quarter surrendered benefits and withdrawals totaling $919 million. Withdrawals were $500 million more than during the first two quarters. The figure includes higher-than-normal premature withdrawals, an unusually high number of GIC maturities and benefit payouts, MONY officials said.)

In evaluating the deal, pension executives considered the interest rate, the re-investment rate, the percentage of contracts invested with MONY and in asset-backed GICs, and how the new structure would fit into the entire portfolio, said Vernon Hodge, president of PRIMCO Capital Management Inc., Louisville, Ky. PRIMCO has $10 billion under management, primarily in GICs.

Some of Mr. Hodge's clients made the transfer; others stayed with MONY.

Those who transferred to Met Life got such benefits as a higher-rated carrier and a separate account that has the liquidity to refinance mortgages if necessary, Mr. Hodge said.

Pension funds that liquidated their MONY contracts generally did so to upgrade their portfolios, consultants said.

Those that stayed with MONY wanted the promise of continued guaranteed rates of return and the option to cash out their contracts, two features not offered through the Met Life deal.

In many cases, the time remaining until the contract matured was too short to justify termination or transferring.

Under the terms of the transfer, there is a six-year maturity for 80% of the assets pension funds transfer to Met Life. Yields will be reset annually, based on the portfolio's value and other factors. The remaining 20% follows the terms of the original GIC issued by MONY.

"They would have been locking in their position over a much longer time," said Michael Shone, president of Peirce Park Group, Wilmington, Del., which advised the Bookbinders fund on its decision to stick with MONY.

Such a position would not be in the best interests of the fund, which is reviewing whether it should invest in pooled GICs instead of individual contracts, or even GICs as an asset class at all, according to Mr. Shone.

"The primary advantage to accepting the deal would be that you're quickly insulating yourself from the risk of Mutual of New York possibly being taken over by the state of New York, regardless of however remote," said William D. Templeton, director of insurance consulting in the Atlanta office of TPF&C.

A takeover would freeze the assets and halt all benefit payments — as was the case at Mutual Benefit Life Insurance Co., which was taken over by New Jersey state regulators last summer.

Another risk is an actual loss on the contracts, which Executive Life Insurance Co. contract holders now are facing.

One key factor reducing the attractiveness of the Met Life deal is the inability to determine the market value of MONY's general account assets, which will be transferred to Met Life and used to back the contracts initially.

"It's difficult, if not impossible, to really make a meaningful estimate of the present value" of the underlying securities, Mr. Templeton said.

Plan sponsors bear the credit risk — which could affect income — if the assets are worth less, he explained.

"We advised a small percentage of our clients to actually accept the Met deal," said C. Jason Psome, principal with Brentwood Asset Advisors, a GIC consulting firm in Santa Monica, Calif. Brentwood has clients holding $60 million in MONY contracts, including clients that purchased the contracts directly from MONY.

"That probably was the least attractive of all the offers that were presented," Mr. Psome said.

"Certain clients we advised to liquidate their MONY GICs even in cases where the market value adjustment was particularly onerous," he said.

Liquidation was an option some clients used to strengthen their overall GIC portfolio, according to Mr. Psome.

"Of all the lower rated (GIC providers), MONY is probably in worst shape," Mr. Psome said. "You can turn (liquidation) into a strengthening proposition for the portfolio. The strengthening step is not just an amputation, it's an actual replacement with a higher quality issue."

Murray L. Becker, president of Becker & Rooney, a GIC consulting firm in Teaneck, N.J., said he recommended the deal to clients who evaluated it in terms of easing the fears of conservative plan participants. "The appearance of risk and reducing the appearance of risk is often quite important," he noted.

But "for a client that wanted to focus on financial issues involved, we recommended not accepting the deal," Mr. Becker said.

The deal leaves MONY with $1.1 billion in GIC liabilities and relieves the firm of $400 million in mortgages, said Tom Schlossberg, senior vice president at MONY.

Furthermore, the company's capital ratio, measured as a ratio of general account liabilities to capital, will increase to 5.8% from 5.5% as of Sept. 30, Mr. Schlossberg said.

MONY had $785 million in capital on $14.2 billion of general account liabilities at the end of September, he said.

"It improves MONY's financial strength, it helps our liquidity even further . . . while providing a good option for our clients," Mr. Schlossberg said.

"MONY gets out from under a liquidity strain, some of which was near term strain," said PRIMCO's Mr. Hodge.

The $666 million deal between MONY and Met Life has three components:

- MONY GIC holders will transfer — effective Dec. 2 — 80% of the value of their contracts (or $366 million) to a separate account at Met Life.

  The account initially will be made up of assets transferred from MONY and representative of its general account assets. The maturity on this portion of the contract is six years and interest rates — which are likely to be lower than what the contracts are earning at MONY — will be declared Dec. 2 and reset annually.
- On the remaining 20% of the contracts, or $92 million, Met Life will guarantee the same terms and interest rates they earned under their arrangement with MONY.
- In addition, $208 million of the $300 million indemnity re-insurance agreement will remain in effect, reflecting Met Life's guarantee on the $94 million value or 20% portion of MONY's GICs. ■

The power of institutions

Study fans new flames on influence of groups' holdings

By Joel Chernoff

NEW YORK — The debate over the growing power of institutional investors has been turned up another notch as a new study has raised the question of whether institutional holdings are highly concentrated.

While business groups warn institutional investors are becoming too big and powerful, institutions say they are fragmented and ineffective.

A new study by a unit of Columbia University's Center for Law and Economic Studies has given ammunition to advocates of both sides of the debate.

While all institutions as a whole hold 45.92% of the stock of the top 25 U.S. corporations, ownership is most highly concentrated among the largest five institutions, which held 10.58% of outstanding stock in those companies at the end of 1990 — or nearly a quarter of the stock held by all institutions, the study found.

What's more, the top 20 institutions hold 21.23% of the stock of the top 25 corporations, or 46.23% of institutionally owned stock. Where those institutions hold sole voting authority, they control 14.87% of the top 25 corporations' shares.

The study confirms earlier data that "concentration levels are very high for most large corporations," said Robert D. Rosenbaum, partner at the law firm of Arnold & Porter, Washington, which represents the Business Roundtable.

The study "confirms the view that in a proxy contest setting, a relatively small group of institutional investors could determine the outcome of the vote," Mr. Rosenbaum added.

But, although the top 10 institutions hold 10.98% of the stock, concentration falls off sharply after that, said Bernard Black, associate professor at Columbia University Law School. "You don't see individual institutions holding large individual stakes," he said.

What's more, institutions — which include banks, insurance companies, mutual funds, pension funds and others — are far from monolithic in their behavior, some argue. Many of the biggest institutions, including large indexers such as Wells Fargo Nikko Investment Advisors and Bankers Trust Co., are not active in the corporate governance area, some note.

Concentration of institutional investor holdings in top 25 U.S. Corporations
(as of Dec. 31)
Top 5 inst'l investors
Top 10 inst'l investors
Top 20 inst'l investors
% of total shares held
10.58%
15.21%
21.23%
% of total shares held with sole voting authority
7.55%
10.98%
14.87%
Source: Columbia University Institutional Investor Project, based on CDA Spectrum Data Base
JOHN TAUL

"You really have to remember institutional investors have as much in common as brunets," said Sarah Teslik, executive director of the Council of Institutional Investors, Washington.

The issue strikes at the heart of the Securities and Exchange Commission's proposed rule changes that would liberalize the proxy voting process by, among other things, permitting "disinterested parties," such as shareholders not advancing proxy proposals, the ability to discuss issues with each other without filing a proxy statement with the SEC.

While the Business Roundtable argues growing concentration of ownership requires fuller disclosure in proxy situations, shareholder activists maintain institutions need greater freedom to share their views with other institutions.

"Both sides are trying to prove their case. The cup is either half full or half empty," said Carolyn Kay Brancato, executive director of Columbia University Law School's Institutional Investor Project, New York, and author of the study.

The study found institutions own 45.92% of the stock of the nation's top 25 corporations. That figure is understated, because the study looks at SEC filings made by institutions with $100 million or more in assets, excluding some institutions. In addition, the top 25 companies include a number of utilities, which typically have lower than normal institutional ownership. An earlier study by the Columbia project found institutions hold 53.3% of U.S. corporate equities (*Pensions & Investments*, Sept. 30).

While business and institutions might be at odds over whether ownership is highly concentrated, few dispute institutions' power is increasing. Mr. Black admits institutions' ability to influence a proxy fight is increasing "on the margin."

Ina McGuinness, a research analyst at the Investor Responsibility Research Center, Washington, said corporate raiders are well aware of institutions' influence. "They know who the big players are. If they can get the big players on their sides, they know they have a chance of winning."

Institutional and individual shareholder power is growing. Nearly twice as many shareholder-sponsored proposals won approval in the last proxy season than in the preceding four years combined, according to a new study by the IRRC.

Individual and institutional shareholders won 16 initiatives in 1990, compared with a total of nine from 1986 to 1989, the IRRC reported.

What's more, shareholders rejected 23 management-sponsored proposals this year, almost three times as many as the year before.

Shareholder support for proposals to require confidential voting, reduce supermajority vote requirements and abolish poison pills also grew significantly.

"Corporate management still dominates the process. That's indisputable," Patrick S. McGurn, the IRRC's legal counsel, said in a release. "But these intriguing new figures suggest the emergence of a trend toward power-sharing arrangements." ■

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